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PREFACE

The contributors to this Jubilee Volume of Economic Papers have been all students of the School ; one of them, though not a student, started his career as a Research Assistant in the School. Some of them hold distinguished positions in life ; a few are on the staff of the School. Though it has not been possible to obtain contributions from several other past students who are competent to write, this random sample of the products of the School may be taken to be fairly representative. I have been personally associated with all of them in one way or another and am glad to have the opportunity to record my grateful thanks to them for their affection for the institution in which they spent some of the best years of their life, and for the loyalty and pride with which they look upon its growth. My thanks are due to Dr. D. T. Lakdawala, Dr. M. B. Desai and Mr. K. S. Krishnaswamy for valuable help in editing this volume and in seeing it through the press.

We are grateful to the Manager, Examiner Press, for printing the volume in record time.

School of Economics and Sociology,
7th July 1947.

C. N. VAKIL

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PROLOGUE

By

C. N. Vakil

The political scene in India has changed so rapidly during the past few months that professional economists are compelled to think many times before airing their preference for this policy or that. Anybody who dares to speak out has either to jump into the fray as a "political" economist or avoid scrupulously all reference to these dark events. The writers of the essays in this volume, mostly past students of the School of Economics and Sociology, have preferred the latter course. Perhaps they will be accused of unwillingness to face facts ; they have braved it because they consider the chaos and bitterness which prevail today as mere passing phases. It is with that conviction that they have addressed themselves to the several aspects of the problem with which India will have to grapple sooner or later, viz. the problem of "full employment" consistent with canons of social justice.

Counsel on this matter becomes involved because of a possible hiatus. A line of policy which ensures full employment of productive resources may not in itself promote a just distribution of incomes. On the other hand, a levelling of incomes through monetary and fiscal policies might act as a deterrent on the volume of employment : a shrinkage in the demand for the product of one industry caused by the shift of incomes may, because of the prevailing multipliers, cause net unemployment of men and/or technical equipment. This is particularly relevant when a transference of incomes from higher to lower groups causes unemployment in some other country and raises the problem to the international plane. Obviously, no nation can afford such a policy of full employment at the cost of some other nation. Any scheme which aims at full employment the world over has to have a clear cut time shape. The proximate objective would be the development of the backward areas of the world ; from the point of view of the more advanced industrial countries, this may mean shifting their resources from export to home-consumption industries. This is not to say that they should move towards autarky ; they should only reduce the proportion

of international to national demand for their products till other countries reach a level at which fair international interchange is possible. In the broader perspective, therefore, attainment of full employment would impose an additional obligation on the more advanced countries. They have to work for levelling incomes as much between nations as within them. Provided this condition is satisfied, the problem reduces itself to the pursuit by each government of a home-investment policy which assures full employment outlay, buttressed by such fiscal measures as are necessary to remedy gross inequalities in individual incomes.

Admittedly there are certain limitations, conceptual and practical, which need to be recognised while discussing such a policy with reference to India. Speaking generally, there has not been a proper appreciation of the difficulties which arise from lack of perfect adaptability of technical equipment. While attainment of full employment depends largely on aggregate outlay, stability of full employment "must depend" as Prof. J. J. Anjaria emphasizes "on the proportions in which total outlay is distributed as between goods maturing at different points of time." But then, who is to decide this distribution between investment and consumption outlays and how ? Should it be a Central Planning Authority deciding arbitrarily, or should it be the individual consumer on a free market ? *Au fond* this is the question of the efficacy of the competitive price mechanism for allocating productive resources. While history has proved the inadequacy of such a mechanism, there are still some who would have us believe that if only the price mechanism were rehabilitated and rendered flexible, it would stabilise full employment. Apart from the unreality of a perfectly competitive price mechanism, it has been demonstrated by Prof. Lange (in the monograph reviewed below by Mr. K. S. Krishnaswamy) that rigidity of certain prices would not be such an unmixed evil as these economists make it out to be. It would thus have to be a compromise between the free market in which prices are sensitive to capricious changes in supply and demand, and the cast iron authoritarian economy, if a "proper" distribution of outlay is to be achieved, "proper"

in the sense of approximation to the esteem values prevailing in society. It is possible as Dr. Rao points out that the question of violence might intervene and the compromise arrived at may have to respect some pet prejudices of the community.

II

Evolving such a compromise in India, as elsewhere, consists partly in correcting the economic structure which has become warped and inconsistent with the essential social values as a result of accident and incompetence in the past, and partly in replacing it with another through better planning and administration. Difficulties met with in the process of resettling war personnel are an indication of the lopsided growth of employment during the war years. Dr. R. M. Ray suggests how a switch-over can be arranged which will serve the larger interests of the country. But it is not just a question of finding employment to the demobilised army or factory-personnel ; that would be even less than a palliative for the malady that afflicts India. What we need is a scheme for employing all able-bodied persons who are willing to work. And there is no way out except through planned development of Indian agriculture and large scale industrialization.

Few would dispute the need for an effective agricultural policy though opinions as to the efficacy of specific measures might differ. Mr. Abhyankar pleads for a policy which affords a sufficiently big margin of net income to the cultivators, even when agricultural prices are allowed to fall, by bringing down the costs of production more than proportionately. Clearly the cost-price-structure cannot be treated in parts, and any price policy in regard to agricultural products is bound to create difficulties—in the shape either of surplus stocks or of bottlenecks in production. To stabilise production and incomes via prices, Prof. Dantwala recommends a system of statutory forward-prices with compensatory payments by Government to producers whenever actual prices fall below these prices. In order to assure stability

in the employment of resources, it will be necessary to see that agricultural costs fit into the general pattern of costs in the society. There could be no such adjustment so long as the moneylenders and absentee landlords are allowed to squeeze the blood out of the cultivators. We want a drastic and imaginative reform of the land systems in India, says Dr. M. B. Desai, so that the available land may be utilised better by more farmers. But as Dr. Desai points out even the most compact of agricultural policies would leave the problem of rural employment half solved ; there is bound to be a spill-over which must be absorbed by industries, large and small.

While it is agreed that industrialisation should form the core of planning for New India, bitter controversy rages on the political question of state-ownership of industries and the moral question of violence and human degradation that form part of factory life. In these feuds, the economic question of managerial efficiency has almost been ignored. Mr. G. L. Mehta, himself a reputed businessman and administrator, focusses attention on the woeful dearth of managerial personnel ; and whether the industries are nationalised or not, this fact has to be faced here and now. All our plans might be wrecked because of this bottleneck in the supply of efficient managers for our industries. We have to have obviously, some method of measuring efficiency in management—if we should reach our target of maximum industrial production with minimum waste of resources. The most obvious index of efficiency in an enterprise economy is the volume of net profits ; but with an impending transition from enterprise to planned economy, the volume of production per unit of management would perhaps be a proper index. However, so long as there is a private sector of industry, the profit index would, as Mr. M. C. Munshi has pointed out, serve a useful purpose. It will assist the Government in deciding the rate at which industrial profits could be taxed without damping investment ; such a levy should just mop up what Mr. D. R. Samant terms "surplus" profits—i.e. "profits which are neither needed for maintaining the supply of investment nor are likely to induce its expansion." Other-

wise, either governmental or private investment will be less than what it could be, with deleterious effects on employment.

III

Clearly this applies to the whole gamut of taxation, debt and currency policies which would form part of "functional finance" in India. Not all monetary wizardry can conceal the fact that the governments cannot provide in the near future all the sums we need for planning. Because of such paucity, Dr. D. T. Lakdawala argues that much depends on deciding which investment projects should be taken up by Governments and when. "If this job is done well, the finances of the future will be much easier to manage, and it will be possible to spare much larger sums for financing development plans."

Assuming that a properly co-crdinated development policy is planned, monetary or fiscal policies aimed at regulating and canalising investment in the required manner would be effective only if the capital market is susceptible to Treasury influence. In India, the enormous increase in note circulation and frantic borrowing by the Government during the war years have had the unfortunate effect of encouraging wild speculation in a none-too-well organised capital market ; enterprise became "the bubble on a whirlpool of speculation." The extent to which this poison has fouled the system is seen by the readiness—one could almost say eagerness—with which private as well as institutional investors have promoted mushroom concerns. Wartime control of capital issues has not had the desired effect. It has suffered, in Mr. Parekh's opinion, "partly by not being a part of wider integrated economic policy and partly by not carrying cut its limited functions with any live sense." This explains the lopsided development of joint stock banking in the country. Banks and their branches have been established and worked with just one purpose—collecting large and quick dividends. And in the eagerness to grab, little or no attention has been paid to the structure of assets or efficiency in management of banks. This has got to be corrected ;

Mr. Maluste thinks that the proposed Industrial Finance Corporation would be of some help. It would perhaps be able to persuade institutional investors to invest more in the long-term capital market than in commercial paper. The mere establishment of such a corporation will not suffice when business morality is at its lowest ebb. Compulsion becomes inevitable, and a start has been made in the direction of strengthening the hands of the Controller of Capital Issues and the Reserve Bank of India. The provisions of the Banking Bill recently introduced in the Central Legislature with a view to arming the Reserve Bank with extensive powers are examined below by Mr. Nadkarni.

Whether all that has been done and proposed will create an efficient capital market in the country is more than one can say. The odds, unfortunately, are not in favour of such a development. We are up against a situation studded with imponderables ; low business morals ; half-baked ideas of persons who are in a position to influence policy ; and prevailing uncertainty in the political sphere, along with insecurity of life and property. True, it would serve no purpose to evolve a cut and dried economic policy for the country at the present juncture. But one could at least strive towards ridding the common man of his apathetic attitude and persuade the businessman to take a broader national outlook. Certainly that is no small task, nor can it be achieved in a day or by a handful of men ; we may all have to struggle long for it. It is this realisation of the immensity of the task which gives a sort of unity to the series of articles in this volume. Would it be too much to hope that they will contribute, ever so little, towards clearing the debris which so greatly oppresses India today ?

I—EMPLOYMENT

THE LIMITATIONS OF FULL EMPLOYMENT

By

J. J. Anjaria

It tends to be assumed, in more popular discussions at any rate, that the main, if not the only, end of economic policy is full employment. Thus, what to the Classicals was a by-product of the optimum distribution of available resources, has come to be the major preoccupation of present-day economists. Nationally, as well as internationally, "high" if not "full" employment has come to be accepted as almost an article of faith.

Like most economic doctrines, the doctrine of full employment has its limitations. The object of this paper is to emphasize some of them and indicate the dangers of equating the economic problem to the problem of securing and maintaining full employment.

That the depression and unemployment of the 'thirties must be avoided admits of little doubt. As a League of Nations Report[1] rightly puts it : "We for our part do not believe that men and women, when the war is over, will tolerate an organisation of society under which those who are willing and anxious to work....are deprived of the opportunity of doing so." It is necessary, however, to realise the limitations of the very concept we are using and also of the policies that can be designed to secure the objective in view.

II

The concept of full employment was evolved in connection with business cycle analysis. It has been defined with

1 Report of the Delegation on Economic Depressions, Part I, Page 9.

reference to labour; full employment is taken to mean just full employment of labour. The assumption behind this was, natural enough in the context, that there was plenty of unused equipment and excess plant capacity, so that setting labour to work would automatically mean setting these other factors to work as well.

Clearly, therefore, recommendations as to policy based on this logic cannot bodily be applied to conditions as in India where the resources to be combined with labour are potential rather than actual. For such underdeveloped countries, although a cyclical depression can be disastrous and must be guarded against, the main problem must be conceived of in terms of *development* rather than of full employment.

Even for industrially advanced countries, however, the limitations of the full employment policy arising out of the initial assumptions and the peculiarity of the contemporary approach to such problems have to be borne in mind.

During the war, full and even over-full employment was attained by the major belligerent countries ; Germany, in fact, attained full employment by 1935 through her armament boom. This means that although at one time, depression and unemployment seemed to be intractable problems, they *are* capable of solution. Keynes' contribution was to show that granted a certain over-all direction and control of the State, the problem of moving on from a position of slump, whether cyclical or chronic, to one of prosperity could be managed within the general framework of—what at any rate looks like—a capitalist society. In fact, in retrospect it now looks as though getting out of a state of less than full employment to that of full employment is an easy matter. You have partly to raise profit expectations and partly to supplement and even supplant the profit motive by suitable monetary and fiscal means. The real trouble is that (*a*) for underdeveloped countries such full employment does not mean anything like a full utilisation of their economic potentialities and (*b*) for developed as well as underdeveloped economies, the prosperity thus secured might turn out to be only precarious.

III

(*a*) That full employment for labour need not mean a full utilisation of a country's undeveloped resources is by no means surprising. In the "General Theory" Keynes assumes explicitly as given "the existing skill and quantity of available labour, the existing quality and quantity of available equipment, the existing technique, the degree of competition, the tastes and habits of the consumer, the disutility of different intensities of labour and of the activities of supervision and organisation, as well as the social structure including the forces....which determine the distribution of the national income."[1] Building up a country industrially and commercially is a problem on a different plane altogether. It presupposes a favourable monetary and fiscal policy, but it demands, as in the case of India, a much wider economic and sociological attack aiming at an alteration of basic conditions, technological and psychological, assumed to be constant in the full employment analysis.

(*b*) The relevance of inelasticities of supply on account of the heterogeneity and lack of interchangeability of resources was pointed out by Keynes himself when discussing the possibility of prices and wages rising before full employment was reached.[2] Developing this point, though from a different angle, Kaldor[3] stressed the limitations of full employment in view of what he called "two technical peculiarities of modern industrial societies," viz., the complementarity of the factors of production and their specificity. Since, in the short run, the proportions in which factors can be combined are more or less fixed and since equipment is limited, full employment in an industry would connote full employment *either* of equipment *or* of labour, output becoming inelastic at the point of full employment of either of these. The specificity of factors necessitates that expansion in economic activity should take place in lines which can use the existing types of equipment and labour. For, if monetary expansion leads to an increased

1 Page 245.
2 "General Theory," Page 296.
3 In an article entitled "Stability and Full Employment" *Economic Journal*, Dec. 1938.

demand for types of equipment and labour not currently available, it would involve readaptation, high costs and low productivity. Wartime experience in India is a striking illustration of the limitation on increased output imposed by both the above factors. Industrial output increased by about 20 per cent ; agricultural production remained more or less inelastic. The peak in most lines was reached by 1942-43, later years registering considerable setbacks,[1] in spite of continued monetary expansion.

But more serious than these bottlenecks limiting the efficacy of a full employment programme is the danger that in the process of attaining full employment, investment goods industries would probably have expanded to a scale which cannot be maintained for any great length of time except by means of stringent controls. This is because of the fact that under the existing industrial system, fluctuations in such industries are always greater than in the consumption goods industries. Once, therefore, we visualise the problem as of full employment *overtime* rather than at a point of time, the Classical-Austrian problem of maintaining a balance between the expansion of consumption goods industries and production goods industries so as to evolve a time structure of production in more or less close correspondence to the community's distribution of expenditure *over time* as between the output of these becomes just inescapable. To quote Kaldor again, it is not enough to act on the liquidity preference or the marginal efficiency of capital ; the propensity to consume has to be regulated, not just once for all but continuously.

The full employment equilibrium of wartime is not stable exactly because apart from the fact that it is associated with more than the optimum total expenditure, it does not conform to the peacetime distribution of the community's demand between different types of consumer goods and also between consumer goods on the one hand and capital goods on the other. The necessity of controls during and after the war follows directly from this factor.

1 Reserve Bank of India Bulletin, January 1947.

Since Keynesian analysis emphasizes the monetary more than the real aspect of the savings-investment-income processes, it seems to give inadequate consideration to this problem. It seizes on the fact that there is underutilisation of capacity in consumption goods industries as also in capital goods industries during the depression and proceeds to show how *both* can be stimulated simultaneously. The main problem is the creation of a certain aggregate of effective demand. This ought to be done preferably by stimulating investment, but it could be done by advancing money to consumers on any pretext, in reward, say, for digging holes in the ground and filling them up again, so that monetary demand is pushed up. Problems of "forced" saving or of maintaining a time structure of production which corresponds more or less to the "voluntary" distribution of the community's income stream over time do not worry Keynes, for, although he stressed dynamic factors like expectations, his analysis is in essence static, picturing adjustments as instantaneous with no need for "dating."[1]

Could we, then, conclude that in the Keynesian way of thinking, *any* distribution of resources between consumption goods industries and capital goods industries would give a *stable* position of full employment equilibrium ? Such an inference—or charge—would appear to be unwarranted, for in order to perpetuate a state of "boom" or "quasi-boom," Keynes recommends a progressive reduction of the rate of interest so as to bring about a "euthanasia of the rentier;" secondly, a radical policy of stimulating consumption through taxation of large incomes and inheritance ; and thirdly, "a somewhat comprehensive socialisation of investment." This last is evidently a far-reaching change in the socio-economic system, although it does not involve socialism in the sense of state *ownership* of the instruments of production.

Call this a difference in assumptions, or a difference in logic, the significant point is that we have really to choose between keeping up full employment by Keynesian means, if we attain it that way, and keeping a close watch through-

1 Haberler : Prosperity and Depression (1941 edition), p. 249.

out in the Classical-Austrian manner on the right relationship between the distribution of expenditure and employment in the consumption goods industries and capital goods industries, retaining throughout the consumer's choice in respect of the use of income he has at his disposal. A considerable part of the differences of opinion as between, broadly speaking, the orthodox school and the Keynesian school could thus be explained in terms of the sort of socio-economic arrangements which the two visualise as evolving any way or as worthy to be evolved by deliberate policy. While the more orthodox among economists assume the decisions to save and to invest to remain with private individuals during the upward phase and throughout, this socialisation of investment which Keynes ends up with enables him to dispense with this aspect of the problem. Now, it has always been understood that given a "sufficient" amount of socialisation, the trade cycle could be eliminated. The problem really is to discover whether the maintenance of full employment is compatible with individual enterprise in which state regulation is marginal and corrective in the main.

Arguing along similar lines, Sir William Beveridge distinguishes between what he calls a "policy of public works" which he considers inadequate—and "a policy of full employment."[1] The former is conceived as marginal and corrective; the latter is a policy of "socializing demand,"[2] though not production necessarily.

This is not to suggest that the Keynes-Beveridge policy is unsound; the point is: full employment implies the acceptance of centrally directed investment, if nothing more. For a country like Britain which accepts national ownership of vital industries, this acceptance may raise no difficulty. But, it is certainly doubtful if other countries like the U.S.A. which subscribe to the full employment creed accept this principle of "socialising demand," as Beveridge puts it, or "a somewhat comprehensive socialisation of investment," as Keynes expressed it. For practical policy, whether the incipient

1 Full Employment in a Free Society, p. 262.
2 *Ibid*, p. 190.

business recession in the U. S. A. over the next few months is going to be a mild one, as is generally expected, or of a catastrophic type, as some are inclined to believe, will probably be of great significance to the future outlook of the industrially advanced countries on the trade cycle problem and policy.

V

It appears from the above that the approach to economic problems with full employment as the central objective is of only limited practical significance and is, theoretically, somewhat misleading. It proceeds on certain very special assumptions, true of highly industrialised countries in a particular phase ; the low or diminishing marginal propensity to consume, the reluctance of labour to accept a lower real wage through a reduction in money wages, an interest rate not responsive to or effective on profit expectations, and, in addition, a high elasticity of supply.

Its significance lies in the new emphasis on the principle of effective aggregate demand which determines, so to say, the pitch at which the economic system works. That monetary under-consumption can thwart economic progress by a process of attrition, characterised by lower investment, lower incomes and frustrated savings all round is, indeed, a valuable addition to our knowledge of the relationship between monetary and real phenomena in the complex economic system of today.

Its theoretical failure lies in neglecting to emphasize the importance of proper distribution of the total outlay or expenditure which is needed for full employment. Nationally, as well as internationally, the stability of full employment must depend on the proportions in which the total outlay is distributed as between goods maturing at different points of time, so that investment and consumption keep in step, following the desired pattern. And, this implies bringing in classical analysis right back in the centre of the picture.

There is, therefore, no escape from the old-fashioned view that the economist's function is really to analyse the conditions

of economic (suitably defined) welfare and that this presupposes taking into due account the two main criteria of prosperity, viz., real income consumed and real income produced. The third criterion, namely, full employment would be a good index during the depression phase, when improvement in this respect would involve more or less all-round expansion. Even so, unemployment is a function not merely of the general economic situation but also of the rigidity of wages which, in turn, depends on the strength of trade union organisation, the attitude of the State and such other institutional factors. Further, in under-developed countries, as we have seen, the immobility of labour is so great that a slump would manifest itself in extensive "disguised" unemployment and/or even harder work to maintain incomes in the face of a sharp fall in prices.[1] All in all, the approach to economic problems in terms of full employment seems to be no more than a symptomatic treatment rather than a fundamental diagnosis.

Real income consumed and real income produced remain, therefore, the basic criteria of prosperity. The two diverge by the amount of additions to or drawings upon the capital resources of the country. It is possible, as for the U. K. in wartime, to draw upon one's investments and maintain consumption, as it is possible, and may indeed be desirable, say, for purposes of development, to restrict real consumption and add to the future real income produced. A close analysis of these magnitudes and their variations would give a dependable picture of the economy ; the problem of employment would then appear as one essentially of matching the demand and supply of labour by a proper handling of industrial location, labour training and mobility of resources.

VI

If the reasoning above is correct, it follows that the somewhat excessive pre-occupation of the mid 'thirties with economic aggregate rather than with relative valuation will have to be corrected in favour of the latter. It is true that the analysis of relative values does not exhaust the economist's func-

1 Haberler : Prosperity and Depression, pp. 260-261.

tion which remains, to use an old-fashioned definition of Cannan's : Why all of us are as well off or ill off as we are and why some of us are better off or worse off than some others. It is not as if we have, first of all, a theory of Output and Employment *as a whole*, and, then, a Theory of Value and Distribution analysing the allocation of *given* scarce resources as between different uses. The two must go hand in hand, since different uses or alternatives open relate as much to the vertical as to the horizontal allocation of resources. Some passages in Keyne's "General Theory" seem to suggest that the classical theory of value and distribution comes into its own only *after* the point of full employment equilibrium is reached and that it is, therefore, a special case. On scrutiny, this does not appear to be a sound position. Keynes's theory has been developed on the assumption[1] that the rates of remuneration of the different factors of production which enter into marginal cost all change in the same proportion as the wage-unit,—a device to assume away, for the time being, the problem of relative changes. But, essentially, this is *not* a problem that can be taken up separately or *after* full employment has been attained ; for the total output and employment on the one hand and the maximisation of available resources *at each stage* on the other are so intertwined that the pursuit of one at the expense of the other is bound to upset the analysis worked out in terms of either. The "General Theory" thus provides a necessary corrective and a supplement to the classical analysis ; it is by no means a substitute.

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1 General Theory, p. 295.

PRICE FLEXIBILITY AND EMPLOYMENT[1]

By

K. S. Krishnaswamy

In a mixed economy, the success of a full employment policy would depend upon factor prices being responsive to changes in governmental outlay, and factor supplies to prices. If the sector in which prices are initially affected by governmental demand is large enough, and if the price variation is considerable enough, a tendency on the part of factors of production to move would be checked partly by an increase in the supply of factors of production and partly by a rise in factor rewards in the other sectors. This would doubtless depend on several conditions being satisfied. While the size of governmental outlay is important, the speed and magnitude of adjustment of prices of factors of production necessary to bring about full employment vary in accordance with the value of the investment multiplier. Monopolistic and monopsonistic elements in the community are one damping influence; a low marginal propensity to consume is another. Other things remaining equal, governmental outlay would tend to add less to aggregate effective demand (and therefore employment) the greater is the average degree of monopoly in the community. For, assuming that some factors of production are in excess supply an increase in governmental demand for goods in the production of which these factors are used will create initially an excess demand for these goods at the prevailing prices. If these prices rise, there would eventuate a diminution in the excess supply of factors of production ; the increased outlay would then constitute the income of factors hitherto unemployed—provided no monopolistic and/or monopsonistic surpluses accrue in the process. It may also be presumed in these circumstances that the marginal propensity to consume of those to whom incomes accrue is sufficiently high.

1 Being a review of *Price Flexibility and Employment* by Oscar Lange (Principia Press, Bloomington, Indiana, 1944, pp. 114).

On this argument, effectiveness of governmental policy would be judged from the approximation of the realized market mechanism to conditions of perfect competition. Given perfect competition, for total stability of equilibrium of the system it is essential that there should be neither excess supply nor excess demand anywhere in the system relative to a determinate set of prices; also, these prices should be sufficiently sensitive to render any excess supply or demand self-limiting. It would then appear that maintenance of full employment amounts to maintenance of a stable equilibrium at a certain set of prices—including the "price" of money. If this is accepted, prolonged unemployment of resources would be an evidence of rigidity of one or more prices in the system ; and governmental policy designed to achieve full employment will have to have as its objective the elimination of such rigidities.[1] Are we then to conclude that the problem of full employment policy is just a problem of maintaining prices which are sensitive to changes in (governmental) demand? This may be said to be the question which occupies the background of Professor Lange's brilliant monograph. However, he approaches the problem from a fundamental theoretical angle and touches on the question of policy only in the final chapter.

II

Before taking up Professor Lange's arguments, it may be advantageous to bring out the implications of the thesis which makes price-rigidity the villain of the piece.

"The price of a good is said to be flexible if it falls whenever there is excess supply of and rises whenever there is excess demand for the good" (p. 2).[2] Price-flexibility in this sense is necessary for stability of equilibrium under competitive conditions, so that any movement out of equilibrium

1 It may be mentioned that both planners and anti-planners accept this. Anti-planners argue that Governmental intervention makes for rigidity and *therefore* is reprehensible. Planners argue that since perfect competition is impossible, any policy which aims at removing all rigidities is doomed to fail—hence the alternative of planning with more or less of price-regulation.

2 Lange, *op. cit.* All quotations in the text which are followed by page numbers in paranthesis are from Lange's book.

would be self-limiting. But this implicitly assumes that when, say, an excess supply of a factor causes a price-fall, the aggregate effective demand in the system is unaffected ; otherwise there is no reason why the price-fall should eliminate excess supply. It is against this severence of the connection between aggregate effective demand and prices that Lord Keynes protests. While it is a perfectly valid assumption in regard to an individualistic analysis, it does not hold for an aggregative analysis. Once this connection is recognised, it would be argued that certain price-rigidities are more stabilising than otherwise—for instance, inflexibility of money-wages in the Keynesian set-up. "The reduction in money-wages will have no lasting tendency to increase employment except by virtue of its repercussions either on the propensity to consume for the community as a whole, or on the schedule of marginal efficiencies of capital, or on the rate of interest."[1] And "a moderate reduction in money-wages may prove inadequate while an immoderate reduction might shatter confidence even if it were practicable."[2]

Secondly, the role of money in aggregative analysis is not just a passive one of serving as a *numéraire*, so that repercussions of price-variations would be confined to the supply and demand-schedules of goods and services only. Relative to any set of prices, demand for money is determined as much by a preference-schedule in which, amongst other things, time is significantly involved as by the supply of goods and services at those prices. It will therefore be essential to consider the demand for money as arising from both current and speculative transactions.[3] Analytically, it would still be possible, if need be, to consider the demand for money for speculative purposes as equal to zero ; the prices existing on the market at any moment would be supposed to continue

1 Keynes : *General Theory*, p. 262.

2 *Ibid*, p. 267.

3 Keynes uses the word "speculation" to denote "the activity of forecasting the psychology of the market" (op. cit. p. 158). This is too wide for our purpose, since we are concerned with *transactions* the motive behind which is the expectation of a price-change, rather than a discrepancy between the esteem-ratios and current exchange-ratios of goods and services. (Cf. N. Kaldor. RES 1939-40, p. 1).

in the future also.[1] But in practice, this would be unjustified. as price-expectations would be in a continuous state of flux. Since governmental policy has a necessarily monetary bias, it will be essential to relate it to price-expectations as much as, if not more than, to current relative prices. Stabilizing price-expectations may then be considered as a desideratum, and this would argue in favour of maintaining some price-rigidities at least.

Thirdly, it is based on the conviction that perfectly competitive market behaviour is compatible with private organization of large-scale production ; price-rigidities are taken as indications of failure of the competitive process rather than of capitalistic mass-production. This is not borne out by facts. Monopoly[2] is inevitable wherever technological considerations weigh heavily on the side of the large-scale production unit ; and with such monopolies, more or less of price-inflexibility obtains somewhere in the system. Liquidation of monopolies to secure flexibility of prices would strike at the volume of output and therefore of employment. To justify its existence, the capitalistic enterprise economy should make possible not either greater output or greater flexibility of prices but both simultaneously. Inasmuch as the capitalistic system fails to achieve this, it loses its *raison d'être*. The alternative is total or partial socialisation of productive activity, with prices regulated rather than allowed to adjust on a market. Since we are concerned here with a mixed economy, this would mean nationalization where the large-scale unit is inevitable and trust-busting where there is not much to choose between the large—and small-scale units on grounds of technology. This would of course create two distinct sectors—a monopolistic nationalised sector and a competitive private sector—but any flexibility of prices prevailing in the latter would not be of the specification indicated above. Such an arrangement cannot be justified on grounds of promoting that flexibility of prices which maintains total

1 This is a special case, of unit "elasticity of expectations" (Hicks : *Value and Capital*, p. 205)combined with a constant rate of time-preference and stationary preference schedules.

2 *i.e.*, entrepreneunial adjustment of outputs *and* prices on a market.

stability of equilibrium of the system. It derives its force from the negative argument that competition has little chance of surviving under a capitalistic organization either.

So, any study of the relation between price-flexibility and employment will have to recognise these implications. Changes in the levels of income, propensity to consume, the state of expectations, monopoly power and capitalistic growth need to be considered vis-a-vis changes in prices. It is particularly in respect of these that Professor Lange's book is most helpful.

III

Three repercussions of a change in the price of a factor of production are recognized by Prof. Lange, as a result of which an excess supply ("under-employment") or an excess demand ("bottleneck") might be eliminated. Suppose there is under-employment of the factor and its price falls ; a consequential discrepancy between the ratios $\frac{\text{marginal value product}}{\text{marginal factor cost}}$ of each of the factors leads to an "intra-temporal substitution effect," causing the excess supply of the other factors, whose prices fall. The marginal cost schedule of output is thereby lowered, so that on the profit-maximisation assumption, there is an "expansion effect" to restore equality between marginal revenue and marginal cost of output.[1] Simultaneously with these two effects, there may be an "*inter-temporal* substitution effect"—based once again on the profit—or satisfaction—maximisation assumption, in the form of substitution either between money and assets, or between assets of different durability.[2] Since inter-temporal substitution depends on discounted future prices, it is convenient to consider this effect while examining the role of expectations and uncertainty in Lange's system.

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1 This would amount to the equation of price with average cost of product under perfect competition.

2 "Assets" as defined in Marschak : *Money and the Theory of Assets, Econometrica* 1938, p. 313.

The possibility of an expansion effect brings money directly into the picture. An excess supply of one factor resulting in the excess supply of others thereby causing a fall in the prices of *all* of them, must lead to an increase in the demand for *all* of them if there is to be an expansion of output. This is merely a concomitant of the change in the real value of cash balances held by (in this connection) the entrepreneurs, who promptly set about substituting goods for cash balances (i. e. money) or *vice versa* as the case may be. When this happens in respect of all commodities—that is to say when for a fall in the general price-level goods are substituted for money and for a rise money for goods—there may quite conceivably arise an excess supply or demand for cash balances.[1] The possibility, therefore, of changes in the demand for a factor as a result of the change in the demand for cash balances must be reckoned, in contradistinction to changes in demand for the factor which are due to variations in price-ratios.[2]

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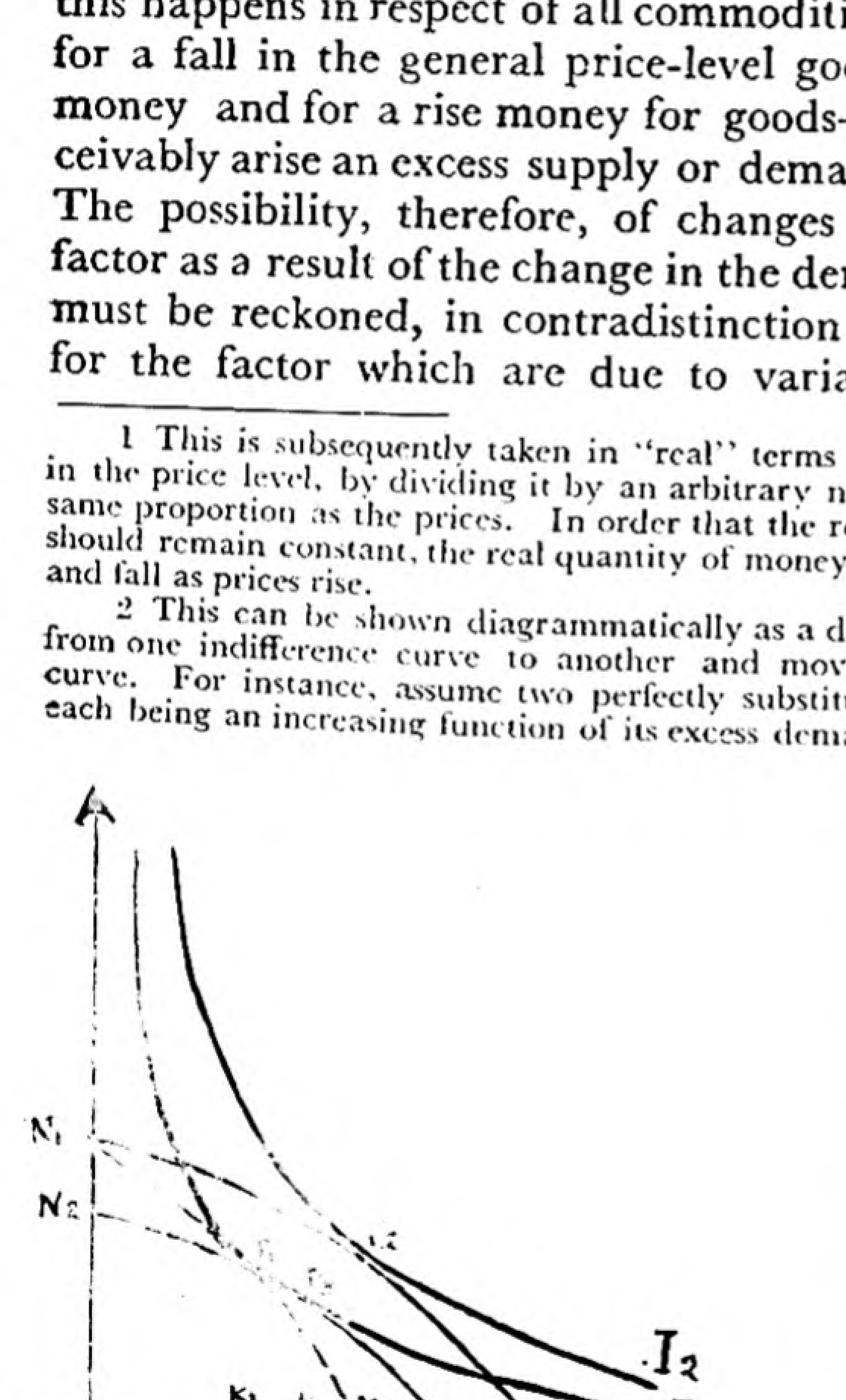
1 This is subsequently taken in "real" terms and "corrected" for changes in the price level, by dividing it by an arbitrary number which changes in the same proportion as the prices. In order that the real demand for cash balances should remain constant, the real quantity of money should increase as prices fall and fall as prices rise.

2 This can be shown diagrammatically as a distinction between movement from one indifference curve to another and movement along an indifference curve. For instance, assume two perfectly substitutable factors, the price of each being an increasing function of its excess demand. With a given quantity of money, an excess supply of one factor causes its price to fall; because of perfect substitutability the price of the other factor need not fall, as long as expansion of output is possible. In the adjoining figure, I_1 and I_2 are isoquants; $N_1\ M_1\ N_1\ M_2$ and $N_2 M_3$ are "isocost" curves—*i.e.*, curves indicating service combination that have the same moneycosts. The common tangent points P_1, P_2 and P_3 are minimum cost positions, respectively for (*i*) the old output at the old prices of M & N; (*ii*) the new output at the altered price of M and (*iii*) the old output at the altered price.



Hence Lange's monetary effects : "We shall say that the monetary effect is *positive* when a proportional fall of all prices causes a substitution of goods for money and a proportional rise of all prices induces a substitution of money for goods. When the opposite happens, we shall say that the monetary effect is *negative*. Finally, the monetary effect will be said to be *absent*, when there is neither substitution of goods for money nor of money for goods" (p. 7). This specific treatment of demand for cash balances presumes definite expectations, with elasticity of expectations equal to unity, so that there is no inter-temporal substitution between money and goods. With the help of this postulate, Lange is always in a position to explain excess supply somewhere in the system by excess demand somewhere else.[1] So that, in its most general form, Lange's system includes, amongst others, those of Lord Keynes and Professor Hicks ; these two systems are derived, respectively, by considering certain excess demand functions as homogeneous of zero degree in certain prices, and by making all elasticities of price expectations equal to unity.

The importance of the monetary effects is enhanced by *inter-temporal* substitution which arises as a result of matching the current price against the discounted present value of the expected price of the factor. Barring uncertainty,[2] there are two elements of significance here viz., the (subjective) expectation of the price at the end of a certain period of time, and the rate of interest on a loan of that duration which

1. A case in point is Lange's explanation of equilibrium with the Keynesian "involuntary unemployment" (p. 6n). When the assumption that the supply of labour is infinitely elastic up to the point of full employment is waived such a position becomes a special case of excess supply of labour, arising out of an excess demand for cash balances, when all other excess demands have an equilibrium value of zero. If, money wage rates being what they are, the quantity of money is increased, so that there is a diminution of the excess demand for cash balances at the prevailing prices, entrepreneurers may hold as much money as heretofore and yet supply more employment than before. There is then a diminution of excess supply of labour along with a diminution of excess demand for cash balances; when both disappear, there is Keynesian full employment or Lange's equilibrium. Compare this explanation with Keynes' restatement of the Quantity Theory of Money, *op. cit.*, p. 296. Also with F. Modigliani : *Liquidity Preference and the Theory of Interest and Money* Econometrica (1944) pp. 65-66.

2 See below, p. 15.

gives the discount factor.[1] Given the rate of interest, inter-temporal substitution would be in accordance with the elasticity of expectations, and would affect the real demand for cash balances by a postponement or speeding up of purchases and sales. If the current price rises, when elasticity of expectations is greater than unity ; or if current price falls when elasticity of expectations is less than unity ; the discounted present value of the expected price is higher than the current price. There will ensure a postponement of sales and a speeding up of purchases—in Hawtrey's terminology, a "release of cash"—reducing the real demand for cash balances. A price-rise with elasticity of expectations less than unity or a price-fall with elasticity of expectations greater than unity, would cause an "absorption of cash," and increase the real demand for cash balances. When the elasticity of expectations is equal to one, there is no inter-temporal substitution. Since elasticities of expectations may be different in different markets, the *net* effect of inter-temporal substitution on the real demand for cash balances is taken. "When the net effect is to vary the real demand for cash balances in the same direction as the change in current prices, we shall say that price expectations are *prevailingly* inelastic. Correspondingly, we shall say that price expectations are *prevailingly* elastic, or of unit elasticity, when the net effect is to vary the real demand for cash balances in opposite direction to the change in current prices, or not to vary it at all" (pp. 22-23). Since this net effect might raise or lower the real *excess* demand for cash balances, the possibility of "under-employment" or "bottleneck" situations arising out of inter-temporal substitution has to be recognised.

In two cases, a fall in the general price level, interest rates remaining equal, would cause inter-temporal substitu-

1 If p_t. is the (subjective) expectation of price at the end of time t, r_t the rate of interest on a loan for that duration, the discounted present value of the expected price is $q_t = B_t p_t$, where B_t is the discount factor $= 1/(1 + r_t)^t$ Lange, p. 27n.) q_t thus varies directly with p^t and inversely with r_t.

tion in the opposite direction to intra-temporal substitution and expansion effects, as can be seen below :

Current price-level	Intra-temporal effects cause real demand for cash balances to	Expectations are prevailingly	Inter-temporal substitution causes real demand for cash balances to
I (a) Falls	diminish	inelastic	diminish
(b) ,,	,,	of unit elasticity	remain equal
(c) ,,	,,	elastic	increase
II (a) Rises	increase	inelastic	increase
(b) ,,	,,	of unit elasticity	remain equal
(c) ,,	,,	elastic	diminish

Intra-temporally the monetary effect is positive, which is hampered by inter-temporal substitution then price-expectations are prevailingly elastic. This has to be remedied by appropriate changes in the real quantity of money, that is by the "responsiveness" of the monetary system. The system is said to be responsive, neutral or unresponsive according as the real quantity of money changes by an amount greater than, equal to or less than the change in the real demand for cash balances (p. 23)[1]. If a positive monetary effect should be assured, whatever the elasticity of expectations—so that under-employment of a factor is removed inevitably by a price-fall—the monetary system itself should be capable of a good deal of adaptability. For "(prevailingly) elastic price expectations require a responsive, whereas (prevailingly) inelastic price expectations require an unresponsive monetary system. (Prevailing) price expectations of unit elasticity require a monetary system which is responsive when prices are falling and is unresponsive when prices are rising" (pp. 23-24—Parantheses added). This is Lange's *General Rule*,

1 When there is no change in the real demand for cash balances, the monetary system is responsive, neutral or unresponsive according as the increment in the real quantity of money is $>$ // $<$ o (Incidentally, the inequalities in n7 p. 23 have been wrongly printed).

to which he attaches considerable importance. It makes out a case for monetary management, and in Lange's opinion "the adoption of a monetary system, managed according to the General Rule....., is the first condition of economic stability in our times" (p. 86).

This conclusion is not affected if the assumption of constant interest rates is waived. When, e.g., there is a fall in the price-level, the real earning power of assets (bonds) whose redemption price (at the end of the time-period which is considered) is fixed in terms of money increases. The real demand for these assets increases which, unless counterbalanced by an equivalent increase in the real supply of such assets, causes their price to rise—which means a fall in the rate of interest on bonds of that duration. Consequently, the discounted value of the expected price rises, and adds to the relative attraction of current price for purchasers and of future price for sellers. If, therefore, the monetary system is such that a fall in prices always causes a positive monetary effect when interest rates are unchanged, reaction of interest rates to price-changes will, if anything, buttress the stabilising forces in operation. It is only when the monetary effect itself is destabilising—i.e., when the real excess demand for cash balances varies inversely with price variations—that a change in the rates of interest contributes towards instability.

Given flexibility of prices, therefore, under-employment anywhere in the system tends to be self-limiting or cumulative according as the monetary effect, taking all things into consideration, is positive or negative. If there is a persistent tendency towards negative monetary effect in a system, the cumulative destabilising influences will have to be met not by rigidity of prices, but by "negative price-flexibility." That is to say, the price should rise for an excess supply of and fall for an excess demand for a good ; in other words, it must become an "inferior" good.

IV

With the help of these "effects" Prof. Lange examines an amazing array of models, proceeding gradually from the closed, perfectly competitive "static" economy to the open, imperfectly competitive, "dynamic" economy; and then to an examination of the "progressive" state—that is to say a state in which propensities to consume, capital accumulation and methods of production are themselves liable to charge along with everything else. The shift to a closed "dynamic" economy with monopolistic competition is achieved with nothing more than a few corrections. (i) Definitely expected prices are replaced by a most probable price, in the discounting of which a risk premium is allowed. (ii) Equilibrium is redefined so that it is disturbed by monopolistic under-restriction and over-restriction instead of by excess demand and excess supply.[1] (iii) Marginal revenues, marginal expenditures, and their expectations replace prices and price-expectations. Subject to these corrections, the conclusions reached earlier in regard to the stabilising influence of positive monetary effect are true in this connection also.

When, however, oligopolistic and oligopsonistic elements intervene, the conclusions reached for monopolistic and monopsonistic situations do not hold, because a fall in the price of a factor may merely raise the difference between price and marginal cost, by reducing the marginal cost while the price of the product remains unchanged. Equilibrium in an oligopolistic market being dependent precariously either on correctly conjectured reactions or on agreement, firms forming such a group are constrained to observe a certain "discipline" in regard to their price and output policies. The three "effects" may therefore be thwarted because of the fear of initiating a disastrous price-war.

Similarly, international trade would be a stabilising influence if the international market is atomistic and if the

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1 In the event of monopsony, over-restriction corresponds to excess demand and under-restriction to excess supply. What holds for monopoly and monopsony holds for monopolistic and monopsonistic competition also. (See next section.).

internal market "is not subject to too strong negative monetary effects and too elastic effective price-expectations" (p. 48). If, on the other hand, the international market is non-atomistic, the position is indeterminate. The effect of price-flexibility would depend upon (i) the effect of international reactions on the real quantity of money in the internal market and (ii) the possibility of monetary systems which automatically adjust themselves to effects of international trade. The atomistic and non-atomistic international markets are thus parallel to non-oligopolistic and oligopolistic internal markets. Except, therefore, when oligopolistic and/or international reactions intervene, the General Rule could be taken as the guiding principle for evolving policy.

Prof. Lange then proceeds to show how changes in the propensity to consume and in investment opportunities leave the conclusions, in the main, unchanged. An interesting point arises in the discussion of effects of price-flexibility on employment when these changes are present. And that is that under certain circumstances, destabilising influences which diminution in the propensity to consume and/or investment opportunities might have exercised are "cushioned" by oligopolistic and oligopsonistic elements in the system. This is an obvious corollary to the earlier destabilising influence of these elements when the "effects" would otherwise have stabilised the system. The significant point here is that when an expansion effect is thwarted by an increase in the degree of monopoly (i.e. $\frac{\text{price-marginal cost}}{\text{price}}$) or of monopsony (i.e. $\frac{\text{marginal expenditure—price}}{\text{price}}$), an excess supply in the system tends to become cumulative. When, however, a contraction effect is thwarted by a decrease in the degree of monopoly and/or monopsony, an excess supply in the system might be corrected. Which makes out a definite case against monopoly, because a reduction in it would reduce the damping effects of capital accumulation, and increase the exhilarating influence of stability in consumption expenditure. This is further strengthened by the attitude of oligopolistic and oligopsonistic firms towards

innovations. "Under oligopsony they (i.e. innovations) tend rather to be factor-neutral, and under oligopoly there is a definite tendency for innovations to be factor-saving.... We know that oligopsony and oligopoly may thwart the effect of excess cash balances on the demand for factors of production. Irrespective of the nature of the monetary effect oligopoly provides a fertile soil for the growth of permanent 'technological unemployment'" (p. 82).

V

The foregoing bare summary does less than justice to the beauty and amazing subtlety of Professor Lange's thesis. To try to compliment him on this superb intellectual achievement would be presumptuous; merely to admire its magnificence would be jejune. It is, however, with a certain amount of trepidation that one attempts to pay a student's tribute to a master, to indicate a few obscurities—for, is it not possible that the defect lies in the eye that sees rather than the thing seen?

(1) *Uncertainty*: As against a definitely expected price in the static state, the entrepreneur is confronted with "a probability distribution of the possible values of the expected price" (p. 29). The mode and the (practical) range of probability distribution provide the most probable price and the degree of definiteness with which it could be expected. The difference between the most probable price actually expected and "the equivalent price expected with certainty" constitutes the *risk premium* (p. 31). Whence follows, when price expectations are subject to uncertainty the *effective* elasticity of expectations which is "that value of the elasticity of expectation of the effective expected prices which is obtained when the risk premium is deducted from the (discounted) most probable price" (p. 32). All propositions about intertemporal substitution based on elasticity of expectations are valid, *mutatis mutandis*, in respect of effective elasticity of expectations.

Lange's definition of "uncertainty" is restricted because it is concerned with anticipations of changes in price only.

"Subjective uncertainty" is thus divorced from "technological uncertainty" which is very summarily treated in a foot note subsequently (p. 71 n2). Nor does he make sufficient allowance for anticipations of changes in the probability distribution itself; he is concerned with *a* probability distribution. The principal parameters of the probability distribution are thus single-valued. The non-static state differs from the static to the extent that definite price-expectations are replaced by a probability distribution, *other things remaining equal.* If this condition is not satisfied, the determinateness which uncertainty is supposed to endow upon the economic horizon is vitiated—e.g., due to uncertain "elasticity of reaction" of the discount factor corresponding to changes in current prices. It is because of this inderterminateness that flexibility and adaptability are "built into" plant. When the parameters are not single valued, inter-temporal substitution for maximisation of (discounted) yields from assets cannot be deduced definitively from the effective elasticity of expectations.

Besides, Lange is guilty here of what Dr. Friedman calls "casual empiricism."[1] The equivalent price expected with certainty is based on the "indirect empirical evidence" of the existence of forward markets; which evidence, he admits, "lacks generality" (p. 32n). This should have prompted him to work with uncertainty-premium (which would be a time-functional) rather than risk-premium (which is a time function).

(2) *Monopoly*: The terms "under restriction" and "over restriction" used in this connection are rather confusing. A monopolist is said to under-restrict when, having sold more than the equilibrium amount (that is to say the amount which maximises his profit) he tries to restrict the supply and raise the price. Inasmuch as such monopolistic under-restriction raises the price, it performs the function of excess demand and therefore may be considered its counterpart in the changed

1 M. Friedman: *Lange on Price Flexibility and Employment*, The American Economic Review, Sept. 1946, pp. 623-25.

market set-up. But the term is likely to be taken to mean *insufficient* restriction of supply at a price offered by the purchasers and therefore construed as excess *supply*. It would perhaps have been more appropriate to equate monopolistic under-restriction with excess supply, since the rise in price which follows is due not so much to *excess* demand as to *reduced* supply.

Apart from the terminological objection, the argument itself is open to a criticism. Taking, e.g., a monopsonist in the factor market, there is monopsonistic under-restriction when he buys more than the equilibrium amount, and this, in Lange's terminology, is parallel to excess supply under perfect competition. The *raison d'être* of such under-restriction is to restore equality between the ratios of marginal value productivity to marginal expenditure of the several factors of production by reducing the proportion (and the price) of that factor relatively to others. This adjustment is different from the adjustment which takes place on a perfectly competitive market where, as a result of excess supply of the factor, the price falls. There a consequential excess supply of other factors arises because the price "happens to have fallen" from the point of view of each of the firms; intra-temporal substitution is due to the behaviour of each of the firms as if prices were quite independent of its activities. Whereas from the point of view of the monopsonist the price does not "happen to have fallen". The price-fall is brought about by the firm, and the firm is aware that a substitution of this factor for the others would again raise the price of that factor—which would hinder rather than help the restoration of equality between the marginal productivity ratios. There is thus no reason why monopsonistic under-restriction of one factor should lead to monopsonistic under-restriction of other facters—so long as the factor in the market for which such under-restriction originates is neither a complementary nor a limitational factor.

(3) *Positive Monetary Effect*: By working throughout with factors of production in respect of which the elasticity of substitution is presumably greater than zero, Lange

gets round the troublesome case of "inferior" goods. This is by no means a serious simplification since an "inferior" factor of production could arise only when it happens to be specific and limitational factor used in the production of an "inferior" product. The same advantage is derived by Lange's definition of the "positive monetary effect". But in this case, the glossing over of the ease with which money can pass from the category of "superior" to that of "inferior" goods needs examination.

For, elasticity of expectations is the crucial factor in this connection, and a change in it may render money "inferior." When, e.g., expectations are prevailingly elastic, as during the upward phase of the cycle, a rise in current prices instead of increasing the real demand for cash balances rather reduces it because of inter-temporal substitution. This inter-temporal substitution may be so strong as to swamp intra-temporal substitution and expansion effects, thereby causing a negative monetary effect. A similar possibility arises during the downward phase of the cycle; that is to say, except prior to the turning points where expectations tend to be prevailingly inelastic, the probable monetary effect is negative rather than positive. Thus Professor Lange's several models which are concerned with "superior" goods and positive monetary effects may not, after all be applicable to the work-a-day world which is subject to fluctuations up and down, but to the ideal state of "normalcy"—a state where the general fall in the price-level is not the forerunner of a depression but a mere disturbance of equilibrium which may probably be corrected by responsiveness of the monetary system.

This is the more remarkable since Professor Lange is well aware that current events have "shattered the belief in a long-run normal" (p. 85); with that belief goes the complacent attitude that the oscillations about the secular trend could be countervailed by measures which alternately damp and stimulate private enterprise. There is in the world to-day a growing conviction that it is in the very nature of Capitalistic growth to generate forces which contribute towards oscillations. The essence of policy would therefore

lie in the manipulation of the rate of growth itself, buttressed of course by anti-oscillation programmes. This would clearly require the treatment of change as a continuous process in time, of institutional factors not as parametric constants but as random variables. While building on the foundations laid by Lord Keynes and Professor Hicks, Professor Lange seems to have overlooked the essential fact that they presume the revivified capitalistic society, and evolve their theories against that social pattern. Against that background the propensities to save and to hold money are very true and very powerful determinants of economic behaviour. But to credit them with all-time potency is to ignore altogether the effects of changes or of expectations of changes in the institutional pattern on the budgetary policy of the individual.

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SOCIAL SECURITY IN INDIA

By

S. D. Punekar

The XXVIth Session (Philadelphia, 1944) of the International Labour Conference passed the following resolution concerning social security in Asiatic countries :—

> "Whereas the proposals for the promotion of social security before the Conference are for the most part inapplicable to Asiatic countries such as India in their present stage of industrial development; and
>
> "Whereas the Asiatic Member States constitute a large part of the world with vast populations which should not be excluded from the benefits of the proposed measures for the promotion of social security having regard to the aims and purposes of the International Labour Organisation ;
>
> "The Conference recommends that an Asiatic regional conference be held at as early a date as possible and that the question of the organisation of social security be included in the agenda of that conference."

The Asiatic regional conference, referred to in the last para of the above resolution, is going to be held in India in October, 1947 and as social security will be one of the items on the agenda of that conference, a brief review of social security problems in India may prove quite opportune and somewhat useful.

The necessity of social insurance in India is no longer a debatable point. Objections to social insurance were once raised on the plea that the time was inopportune, that the existing welfare schemes were quite adequate, that joint family system and charity covered the necessary risks, that a stable

class of industrial proletariate had not yet emerged, that piece-meal proposals of social insurance upset industry, that medical practitioners were too few, that morbidity and other statistics on which social insurance schemes were to be based were practically absent and lastly the migratory nature and rural character of Indian labour were not conducive to social insurance measures. Most of these objections either had not, or if they had, they have now lost, the force that impedes any social progress. The systems of joint family and of charity are decaying fast; a distinct class of industrial workers has come into permanent existence; while the present-day migration of workers to villages during periods of illness and confinement may be taken rather as the cause than as the effect of the absence of social insurance. Some other circumstances are also favourable for the introduction of social insurance in India. Legislation compelling employers to lay down standing orders for their employees has already been on the statute, while that about minimum wages is on the anvil. The Health Survey and Development Committee (Bhore Committee) have made certain valuable recommendations, which if carried out, will facilitate the success of social security measures. The end of World War II has rendered surplus a large quantity of medical equipment and a large number of medical personnel, which can well be utilised for social insurance schemes. Greater and better industrialisation and a well-planned all-India social security scheme will enable to solve the problem of post-war unemployment and destitution to a great extent. The introduction of social insurance for our industrial workers may thus form a major part of the policy of social and economic reconstruction in a post-war period, because an important section of Indian population will be covered thereby.

In most of the industrially advanced foreign countries, the notion of social security seems to have its origin in craft guilds and in the friendly societies, which tried to meet the common risks by mutual action. Such action, which may be called "mutual insurance," was voluntary and covered only a limited number of highly skilled and highest paid workmen in the best organised trades. Mutual insurance is also one

of the three methods of trade-unionism.[1] In ancient India, the craft guilds, which had developed to a remarkable extent, did utilise the method of mutual insurance to cover the social and economic risks.[2] However, these guilds lost their existence long before modern industry made its appearance in India and hence they could not serve the purpose achieved by the craft guilds of Europe. Modern trade unionism in India is still weak and hence the method of mutual insurance has not yet been adequately developed. Besides, the growth of Indian industry, which has been rather irregular, owes a good deal to the initiative and enterprise of non-Indian entrepreneurs. The field was open, the prospects were bright; while labour was poor and plentiful. The profit-making motive of the employer made him generally blind to the necessity of keeping his labour contented, stable and loyal, by means of welfare schemes. At the same time, the idea that labour welfare is a social duty, had not been realised. All these factors are responsible for the absence of social assistance, which practically means the absence of any notable schemes of welfare and relief in our industrial field. The schemes of social assistance, though they tend to be narrow as regards their scope and organisation, help to pave the way for social insurance.

In the absence of any initiative either from the trade unions or from the employers, the responsibility naturally falls on the third party—the State. In countries like Germany and Great Britain, the task of the State in this respect was to develop the structure already in existence in the form of voluntary social insurance or assistance. For example, the State made the insurance compulsory, widened the scope of the schemes, perfected the systems of benefits and of contributions, gave guarantee on the financial basis and granted a legal standing to the insurance Fund; at the same time, it also encouraged self-government by a systematic organisation of autonomous institutions. In India, social insurance is

1 The other two are (*a*) Method of Collective Bargaining and (*b*) Method of Legal Enactment. All these methods have been studied in great detail by Sidney and Beatrice Webb in their *Industrial Democracy*.

2 For a detailed account of the history, constitution, powers and duties of these guilds, see Dr. R. C. Majmudar's *Corporate Life in Ancient India*.

a field practically untrodden before ; there is hardly any precedent for guidance or any basis on which a structure can be built. The only guide, under these circumstances, can be the experience of foreign countries in this field. A study of the schemes of social insurance in foreign countries shows that the branch of social insurance, which generally appears first is a simple employer's liability law, which produces its effects with a minimum of Government intervention.[1] In India, this elementary stage in social insurance was taken in 1923, when employers in certain industries were made liable to pay compensation for industrial accidents and occupational diseases under the Workmen's Compensation Act (Act VIII of 1923.).

The next notable legislation in the field of social insurance relates to maternity benefits, which are covered by various Provincial legal enactments. The first measure was the Bombay Maternity Benefit Act of 1929, which has been followed by similar enactments in all Provinces, except N.W.F.P. and Orissa and in some of the major Indian States. The Central Government also enacted an Act (The Indian Mines Maternity Benefit Act) to cover the female workers working in Indian mines.

The third and the most important step is being taken now. *A Unified Scheme of Social Security to cover Health Insurance Maternity Benefit and Employment Injury* has been already published in the *Indian Labour Gazette* (June 1945, pp. 395-401). Legislation based on the provisions stated therein is being enacted ; the Workmen's State Insurance Bill was introduced in the Legislative Assembly on 6th November, 1946. The origin of this scheme, which has now assumed some concrete form, was in the year 1927, when the 10th session of the International Labour Conference adopted the Sickness Insurance (Industry, etc.) Convention and Recommendation. However, the progress since then was rather slow and irregular and though some tentative schemes were suggested, the problem did not assume any appreciable importance

1 I. L. O.—*Approaches to Social Security*, p. 23.

till the publication in 1944 of the *Report on Health Insurance for Industrial Workers* by Professor B. P. Adarkar, who was specially appointed as an Officer on Special Duty to draft this Report.[1] This Report was discussed in the Sixth Labour Conference and the proposals were later modified in the light of the suggestions made by Messrs. Stack and Rao, the two I. L. O. experts who visited India at the invitation of the Government of India.[2] The Unified Scheme thus evolved after mature consideration of a number of experts has served as a basis for the Workmen's State Insurance Bill of 1946. The principles embodied in this Bill lay down the foundation on which social security in India is to be built. These principles need be studied in the light of the salient features found in the national laws on social insurance in foreign countries.

A study of sickness insurance laws in foreign countries brings out the following important tendencies [3]:

(1) There is a steady movement from voluntary to compulsory system of insurance.

(2) The scope, though it is restricted by age, income, nature of occupation and degree of industrial development in the country, is gradually expanding covering more persons, more branches of insurance and more occupations.

(3) Increasing emphasis is placed upon medical rather than cash benefit, i.e. more on restoration and prevention than on compensation.

(4) There is an expansion in the variety of medical benefits, which tend to include all important kinds of medical care.

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1 Some of the Appendices to this *Report* provide detailed information regarding the history of health insurance proposals and the various schemes suggested in this connection. Appendices Nos. VII, VIII, IX and X are important from this point of view; Nos. XI, XXII and XXXI may also prove useful in this respect.

2 For Stack-Rao Report, see *Indian Labour Gazette*, April 1945, pp. 329-339.

3 I. S. Falk.—*Security against Sickness*, pp. 270-289.

(5) The costs are met primarily from employers' and workers' contributions and to a small extent from the tax funds.

(6) Administration of the Fund, though supervised by the State, is generally in the hands of non-profit-making associations, having representatives of insured persons and employers.

(7) Social insurance is a part of public health but in many countries there is a sharp demarcation between the two.

These are but a few, but important, tendencies found in sickness insurance legislation. Judged from these tendencies, the Workmen's State Insurance Bill seems to be a step in the right direction. We shall have a brief analysis of its main provisions in the light of the tendencies mentioned above.

(1) *Compulsion in Social Insurance*—Compulsory social insurance was first introduced in Germany in 1883 and since then almost all systems have generally contained compulsory features. It is now an agreed fact that social insurance, if it is to be sound and effective, should be made compulsory. Voluntary insurance was tried and in some cases was even subsidised ; but it failed because of its restricted scope, scattered membership, unsound finances and fluctuations as regards benefits and contributions. Compulsory insurance on the other hand has come to stay because of its ever-widening scope, large definite membership and funds and adequate knowledge of the extent of risks to be covered. For these reasons, any scheme of social insurance, if it is to be practicable and useful, will have to be compulsory.

(2) *Scope*—The extension of social insurance is possible in many directions: (a) branches of insurance to be covered, (b) occupations or industries to be included, (c) number of persons to be insured, (d) extension of benefits, etc. The order in which the several branches of insurance are developed depends on the degree of urgency attributed to each

branch and also on the comparative difficulties of the administrative problems involved.[1] We have already seen how a simple employer's liability law is generally the first stage in social insurance. Sickness insurance with its local machinery for maintaining close contact with the insured and with a medical service available for all physical risks, is the next branch to be established.[2] The Workmen's State Insurance Bill covers three risks—sickness, childbirth and employment injury. The grouping together of these three risks is caused not only by the fact that already some provisions regarding workmen's compensation and maternity benefits exist in our legislation, but also by the fact that common medical service can be made available for these three branches of insurance. The scheme thus attempts not only to co-ordinate the existing provisions of social insurance with sickness insurance but also to set up a medical service that can be the basis of medical side of social security in India.

The order in which industries or occupations are covered by insurance depends upon a number of factors such as the severity of risks, development and prosperity of undertakings in that particular industry, the degree of corporate feeling and organisation among the employees. Insurance is generally first established in dangerous occupations such as mining and seafaring. Industry, transport and commerce, as organised branches of economic development soon follow. In India, however, the first class of workers to be covered seems to be factory employees, though miners and seafarers are expected to be insured not in distant future under separate schemes.

As for persons covered by insurance, the Indian scheme covers "all persons employed for remuneration in or about perennial factories (as defined in clause 2 (j) of the Factories Act) by or on behalf of the owner for the purposes of his trade or business, including workers detached on temporary jobs outside the factory premises, and including workers employed for such purposes." This means that all perennial

1 I. L. O.—*Approaches to Social Security*, p. 22.
2 *Ibid*, p. 23.

factory workers, including contract labour, will be covered by insurance. The Sickness Insurance (Industry, etc.). Convention of the I. L. O. lays down that the compulsory insurance system shall apply to manual and non-manual workers, including apprentices employed by industrial undertakings and commercial undertakings, outworkers and domestic workers. The recommendation on the same topic says that Sickness insurance should include within its scope without discrimination as to age or sex, every person who performs work by way of his occupation and under a contract of service or apprenticeship. Compared to these provisions, our scheme appears to go a sufficiently long way as regards its scope.

The I. L. O. Convention on sickness insurance allows the following exceptions as regards its scope :

(a) Temporary workers, casual employment not for the purpose of the employer's trade or business, occasional and subsidiary employment ;

(b) Workers whose wages or income exceed a specified income limit ;

(c) Workers who are not paid a money wage ;

(d) Outworkers whose conditions of work are not of like nature to those of ordinary wage-earners ;

(e) Workers below or above specified age-limits ; and

(f) Members of the employer's family.

These are, however, matters of detail and can well be studied when the provisions are finalised, i.e. when the Act comes into force. Not only these exceptions due to age-limits, wage-limits, character of employment and family relationship with the employer will have to be studied but also other details such as those regarding apprentices, nationality, existing medical benefits, labour in Indian States, etc.

(3) *Medical Aspect*—Compulsory social insurance has a three-fold function : (a) Compensation (for the injury suffered), (b) Restoration (of the earning capacity of the insured person), and (c) Prevention (of the risks, i.e. accidents, sickness and invalidity). However, there has been an increasing tendency to give preference to restoration over compensation, the main aim being to restore health and working capacity of the worker. Compensation no doubt is required to compensate for the loss of the wages during the periods of incapacity; however, it is slowly giving way to restoration and prevention. In India, both the Workmen's Compensation Act and the various Maternity Benefit Acts grant only cash compensation and have not provided for any medical benefits. The Workmen's State Insurance Bill is an important advance in this direction as it intends to set up a separate machinery for medical care to be provided by provincial health authorities ; this medical care will comprise medical, surgical, obstetrical and simple dental treatment at dispensary, home or hospital and the supply of proper and sufficient medicines and surgical appliances. The I. L. O. Convention on Sickness Insurance lays down that the insured person should be entitled free of charge to medical treatment by a fully qualified medical practitioner and to supply of proper and sufficient medicines and appliances. The recommendation on the subject further includes facilities for specialist services, as well as dental treatment and for treatment in hospital where it is necessary. The recommendation also suggests "an alert policy of prevention" as most diseases can be prevented. In India, this policy will be of great value, because a large number of deaths occur due to "avoidable diseases." The unified scheme provides for most of the details mentioned above ; nevertheless, much will depend on the standard laid down and the policy adopted regarding medical care to be provided under the scheme.

(4) *Sources of Funds*—The I. L. O. Convention on Sickness Insurance expects the insured persons and their employers to share in providing the financial resources of the insurance system. As to the financial contribution by the public authority, it is open to national laws to decide the share. The

insured person should contribute not only because of the direct benefits he gets, but also because he can claim them by right (as distinct from relief) : he can also have thereby a moral right to share in the management of the Fund. Employer's contribution is justified not only because he is responsible for the welfare schemes in his undertakings but also because he gets certain advantages, direct or indirect, from successful working of such schemes. The same can be said of the public authority, whose duty it is to keep the industrial classes contented and efficient. The problem "which parties can and should contribute to the resources of the insurance funds" is, however, not so complicated as the other problem "what should be the share of each" The Workmen's State Insurance Bill divides the workers into six wage-classes based on the ranges of daily earnings and lays down both for employers and employees definite rates of contributions. Employer's share is to be greater than that of the worker in all cases. It is possible that these rates may be modified before they are finalised into an Act and hence a detailed study at this stage may not prove useful. The State (Central Government) will not only guarantee the solvency of the Fund, but will also contribute at least for the first few years, two-thirds of the cost of administration. The provincial governments, who are supposed to be benefited by this scheme, are to contribute one-third of the cost of the medical care. All other normal expenditure is to be borne by the Fund, whose income will mainly be derived from employers' and workers' contributions.

(5) *Administration*—According to the I. L. O. Convention, "sickness insurance shall be administered by self-governing institutions, which shall be under the administrative and financial supervision of the competent public authority and shall not be carried on with a view to profit." The Convention further says that the insured persons shall participate in the management of the self-governing insurance institutions or conditions prescribed by the national law. However, the administration "may be undertaken directly by the State where and as long as its administration is rendered difficult or impossible or inappropriate by reason of national condi-

tions, and particularly by the insufficient development of the employers' and workers' organisations." This last provision is of some particular relevance in the case of India. At the same time, as the Recommendation says, the insured persons being those who are the most directly interested in the working of the insurance scheme should, through elected representatives, have an important part in the management of the insurance system.

Under the Indian scheme, the administration of social insurance is to be controlled by a statutory autonomous corporation to be set up under a Federal Act. The executive of the Corporation will be a Central Board, which will be assisted by Regional Boards and Local Committees. The representation given to various interests (State, employers, employees, medical profession, etc.) on these bodies will show the extent of self-government, i.e., administration of social insurance by employers and the insured workers. The participation of the worker in the administration of the Fund is necessary, because (a) as a person getting direct benefits, he is interested in the satisfactory working of the organisation and specially in its financial stability, (b) normally he contributes a part of his wages to the Fund, (c) he is in the best position to know his own social and economic conditions, and (d) his participation makes him morally responsible and teaches him the elements of social insurance and industrial hygiene, thus facilitating preventive measures. The participation of the employer is justified because he pays his contribution and also because he may assist in better management, in welfare activities and in improvement of industrial health. The State enters the field as a third party to keep the balance between the employers' and workers' delegates. Other interests like the medical profession should also be represented because of the value of their co-operation in the successful working of such schemes.

In India, we have to set up quite a new administrative machinery without any adequate experience or sufficient statistical data as our basis. However, this position may prove advantageous for a number of reasons. A social insur-

ance system can best be co-ordinated and centralised at the time of its creation. Experience of many other countries has proved that serious administrative problems are created by the admission of pre-existing, private insurance bodies into a field created by government compulsion. The federal form of the Indian Government provides the ground for a centralised machinery, with branches in Provinces. It thus provides the best method of grouping, viz., the territorial grouping of the insured workers, whereby the Provinces, which at present manage their own labour matters, can serve as the territorial units. There are two more happy features about our administration. Separation of powers between supervisory authority (i.e. the Central Government) and the administrative and the risk-bearing authority (i.e. the Corporation) can produce considerable real advantages. Lastly, the Corporation set up is an autonomous, non-commercial (i.e. set up for non-profit purposes) organisation with provision for reserve funds.

The difficulties about our administration arise because of the fact that the functions of social insurance have been divided under Central and Provincial jurisdictions. For example, under the Government of India Act, 1935, social insurance falls in the Concurrent List, Part II, with the result that administrative authority is largely vested in the hands of the Provinces. In view of centralisation and administrative convenience, the best way is to set up a statutory corporation under a special Act of the Central Legislature. Another difficulty is about the administration of the medical side of the scheme. Industrial health, being largely a concern of the Provincial Governments, is being administered by those authorities. The scheme, however, provides for supervision, subsidy and general directions from the Corporation and the Central Government. Some of the problems to be solved in this respect are the system of medicine, standard of medical treatment, certification and medical reference, prevention of malingering and collusion and medical research. Lastly, the medical side of social insurance can well be a part of general public health. Fortunately, the *Report of the Health*

Survey and Development Committee recently published provides a practicable basis for it.

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THE ECONOMIC FOUNDATIONS OF A NON-VIOLENT SOCIETY

By

V. K. R. V. Rao

Thanks to the efforts of Mahatma Gandhi, non-violence has now come to be accepted as a fundamental ideal for governing political relations. It has been mainly used in India as a technique for obtaining political emancipation from foreign rule. Now that the objective of political emancipation has been more or less attained, it is very important for us to inquire how far it is possible to retain the principles of non-violence in Indian life in a free and independent India. It is my intention in this article to discuss very briefly the fundamental economic conditions that are essential for the maintenance of non-violence in any society, including Indian society.

A non-violent society, as I understand it, is one where the population, either in whole or in sections, does not resort to violence for any purpose including the redress of their grievances or the fulfilment of their requirements. More positively, it is a society where men take recourse to the method of discussion and compromise for the settlement of their differences and the redress of their grievances. It is theoretically possible to conceive of a society where people are so highly developed in their moral sense that they do not resort to violence, even when they have urgent and genuine grievances or fundamental differences of opinion. In actual practice, however, it is not possible to find such a society. It is only when there is general agreement on basic fundamentals and there is general confidence in the justice of the social structure that non-violence is the rule, except of course where non-violence on the part of the masses is due to superior violence on the part of a section of the community. The rule of law is the result of a long historical process of struggle and achievement,

and is durable in time only when there is general confidence in the conformity of law to the canons of social justice. Where the individual believes that the legal system in the country affords him justice, he is willing to forswear resort to private violence and leave it to the State to take steps for the redress of his grievances. Where, however, the legal system in the country does not give the individual scope for the redress of his major grievances, he almost invariably resorts to violence. When he does not do so, it is not because of any absence of a desire to commit violence but because of the fear of consequence. It is clear, therefore, that non-violence in a society is intimately linked with the structure of that society the extent to which it is based on justice, and the confidence that it inspires in the people.

Perhaps the most important aspect of social life is the economic aspect. The opportunities which a man has for earning his living, the kind of work that he has to do in order to earn his living, the remuneration which he obtains for his work and the extent to which it satisfies his fundamental requirements, the comparative rewards obtained by different persons and classes in the society, all these have a great deal to do with the determination of the individual's attitude to life in terms of non-violence. Where a society does not afford any substantial section of its members an opportunity for gainful employment, it is impossible to expect a non-violent attitude. An unemployed person, exceptions apart, is not likely to be moved by moral considerations of the sin involved in violence ; he is more likely to think in terms of devising ways and means of ensuring a state of society where he will secure employment. If he is convinced that the fundamental nature of the society he is living in is such that it does not ensure employment for every individual, but on the contrary brings about unemployment for a large number of its members he is bound to regard such a society with great antipathy and he is bound to look with favour on any measures which will bring about the termination of such a society. If he is convinced that he can do this by resort to violence, he will certainly do so.

The provision of employment alone, however, is not enough for ensuring non-violence. The remuneration which the individual obtains in return for his work has got to be sufficient to obtain for him what he regards as the minimum necessary standard of living. Now conceptions of the minimum standard of living will differ from country to country and from time to time. But in every country in the world and at all times there are certain fundamental basic human necessities without the satisfaction of which life descends to sub-human levels and ceases to be worth while. These necessities include food, clothing and shelter. In addition to these of course are the needs of education, health and cultural amenities enabling the development of human personality. Where a society does not ensure for its members standards of remuneration which will enable them to have such a minimum standard, there is bound to be a great deal of dissatisfaction in that society. If the members of that society believe that it is the structure of the society which is responsible for this state of affairs and not fundamental deficiencies in resources, it is inevitable that they should try to alter the structure of that society ; and for purposes of effecting this alteration, they would be prepared to use violence, if they think it is possible to do so successfully.

Then there is also the question of the nature of the work which has to be undertaken for earning one's living, and the conditions of service. Where the nature of the work is such that it gives no scope to the development of human personality or leads to a sense of self-fulfilment, there is bound to be a great deal of dissatisfaction and discontent in that society. Human beings do not work merely in order to earn their living ; they desire to have a sense of achievement and a sense of pride in the work that they perform ; they would like to enjoy the noble and uplifting feeling that comes from the consciousness that what they are doing is useful to society and contributes to the well-being and happiness of the society of which they are a constituent part. It is also important that the work that they perform is consistent with the human sense of dignity and self-respect. It is always possible that human beings may work under conditions not consistent with their

dignity and self-respect; but they will not do so willingly; and it is certain that such work will fill their thoughts with violence to which concrete expression will be given as soon as a favourable opportunity arises to do so. This important aspect of economic life often tends to be ignored by persons who believe that money can buy everything and that all that is required to secure contentment in workers is to offer them high wages. High wages certainly do help, but they cannot do the trick if they are accompanied by conditions of work that militate against development of human personality and injure the individual's sense of dignity and self-respect.

Finally, considerations of economic justice greatly influence the individual's attitude to society. Where the society contains large inequalities of income, it almost invariably leads to a state of dissatisfaction in the minds of the poorer sections of the society, which sooner or later results in violence on their part to end this inequality. The position becomes much worse when these inequalities are traced to factors which have no special relation to abilities but are the result either of accident or of basic economic institutions such as those of inheritance and the right of unlimited accumulation of property. A non-egalatarian society founded on private property and private enterprise is almost certain to provoke violence on the part of those who belong to the lower income groups in that society.

To sum up, an attitude, if not actually a state of violence, is the inevitable consequence of any society, the structure and social relationships of which are such as to lead either to unemployment or to low standards of living or to conditions of work antagonistic to the development of human personality and injurious to self-respect or to the emergence of significant inequalities in income and economic power. The existence of the conditions mentioned above leads to the emergence of what is called class war and an attempt by the exploited class in the society to overthrow the social order and capture power by armed insurrection. Without an alteration of these conditions, no amount of moral appeal can lead to a state of non-violence. A non-violent society cannot be pro-

duced merely by appealing to men to control their emotions and alter their attitude to life. Human emotions and attitudes to life are to a very significant extent the result of the social, economic, political and other conditions on which they live and function. If we want to produce a non-violent society, therefore, it is these conditions that must be studied and appropriately altered in such a manner as to promote a non-violent attitude and bring into existence the non-violent society. In my opinion, therefore, certain fundamental economic conditions are essential for the maintenance of non-violence, which could be described as the economic foundations of a non-violent society. They are :

1. Employment for all able-bodied persons ;
2. Adequate standards of remuneration ;
3. Work that will enable each individual worker to feel a sense of self-fulfilment ; and
4. A very substantial measure of equality in incomes and economic power.

I am not suggesting that these economic conditions are by themselves sufficient to produce and maintain a non-violent society. Certain political and social conditions are also necessary ; and so is education in the democratic process and confidence in the superiority of discussion and compromise over dogmatism and force. But without the economic conditions, no amount of political or social democracy or education in the democratic process or appeal to the moral element in human nature can ensure a non-violent society.

I shall now return to the question to which I referred at the beginning of this article, viz., how far is it possible to retain the principles of non-violence in a free and independent India. It is obvious that the economic foundations of a non-violent society are absent in India to-day ; and it should be equally obvious that without the realisation of these, it would be impossible to achieve non-violence in free India. How

these conditions are to be achieved in India, how far they are consistent with the system of capitalist enterprise or socialist planning or decentralised economy with an emphasis on handicraft production is a question that requires careful consideration ; but that is not the subject of this article. All that I would like to say here is that a compromise has to be evolved which will simultaneously combine the economic security of the socialist system with the personal freedom found in capitalist society together with the opportunity for self-fulfilment in work found in the decentralised economy with a handicraft bias. Whether such a compromise is possible and, if so, how it can be achieved is a subject I shall turn to in another place. It is sufficient here to state my belief that without such a compromise, it would be impossible to have a desirable non-violent society in India.

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DEMOBILIZATION AND RESETTLEMENT

By

R. M. Ray

When Japan surrendered in August 1945, plans for resettlement of ex-service personnel and discharged war workers to be initiated by Government of India were incomplete. Due to the cessation of hostilities earlier than expected, the resettlement machinery had to be set up at a great speed.

Inter-Service Resettlement Directorate

An Inter-Service Directorate of Resettlement was, however, already in existence since February 1944. Its primary functions were :—

(a) On behalf of the Services, tender advice, furnish information and offer suggestions to the departments of the Government of India and Provincial Governments for the preparation, execution and publicity of resettlement plans and to keep in touch with the provisions made for ex-service men in reconstruction and development plans of the Central and Provincial Governments.

(b) To keep the Indian Services, both within the India Command and outside, in touch with all plans affecting resettlement in which they were likely to be interested.

(c) On behalf of Services to make such arrangements as were required before demobilisation in connection with the filling of appointments in Government services which are reserved for ex-service personnel, and

(d) to arrange for all training in connection with resettlement in Service Institutions before demobilisation.

It is understood that approximately 2,00,000 men were given pre-release training primarily in improved agricultural methods. After the end of hostilities with Japan, the Inter-Service Directorate of Resettlement helped the Labour Department by allowing about 116 recruiting offices to function as employment offices till the employment exchanges were set up with trained staff. The Inter-Service Directorate also helped in setting up the Resettlement Advice Service and prepared a Resettlement Advice Service Hand Book. Assistance was also given in setting up centres for the Rehabilitation of the disabled ex-servicemen.

This Inter-Service Organisation is still continuing and gives valuable assistance to the Department of Labour (Government of India) to discharge the responsibility for resettlement and employment in civil life.

Resettlement and Employment Organisation

2. Towards the end of March 1945, Labour Department assumed responsibility for the resettlement and employment of demobilised Services personnel and discharged war-workers in civil life and set up in July 1945 at the Headquarters of the Central Government a co-ordinated Resettlement and Employment Organisation under a Director General of Resettlement and Employment. The country under the scheme has been divided into nine administrative regions.

(i) Punjab and N. W. F. P.

(ii) Sind and Baluchistan

(iii) Delhi and Ajmer Merwara

(iv) U. P.

(v) Bihar and Orissa

(vi) Bengal and Assam

(vii) C. P. and Berar

(viii) Madras

(ix) Bombay

The Director General supervises, co-ordinates and directs the work of both the Central and Regional Sections of the Resettlement and Employment Organisations. Each Regional Organisation is a replica of the Central Organisation and is under a Director of Resettlement and Employment, who is generally an experienced I.C.S. Officer and whose services have been made available to the Labour Department by the Provincial Governments concerned. This Officer represents and interprets the views of the local Provincial Government thereby facilitating close collaboration between the Provincial and the Central Governments.

Different Sections of the Organisation

3. The problems relating to resettlement of demobilised Services personnel in civil life have been broadly divided under the following heads. The sections of the Directorate General of Resettlement and Employment responsible for tackling them are shown against each head.

(a) Advice, guidance and direction in the selection of civil employment (Resettlement Advice Service);

(b) Registration and Placement in civil employment (Directorate of Employment Exchanges);

(c) Technical and Vocational Training (Directorate of Technical and Vocational Training); and

(d) Publicity and canvassing (Directorate of Publicity).

Resettlement Advice Service

4. (i) This Service functions under a chief Resettlement Advice Officer. Resettlement Advice Officers have

been posted at all demobilisation Centres where they contact demobilised Services personnel and give them detailed information and advice regarding the Employment Exchange Organisation, available employment opportunities, vocational and technical training facilities and such information as might help to solve the many problems that confront them on their return to civil life. Trade Testing Officers, in addition, have been posted at those demobilisation centres from which a large number of technicians are likely to be released. These officers assist Resettlement Advice Officers in assessing the skill of technicians with a view to determining whether any further training is required by the released personnel after discharge which would assist them in their resettlement in civil life.

Directorate of Employment Exchanges

(ii) The functions of this Directorate are to

(a) Supervise, integrate and direct the work of Central, Regional and Sub-Regional Employment Exchanges;

(b) Prepare and maintain card indices of demobilised persons and forward duplicate copies to the Regional and Sub-Regional Exchanges concerned ; and

(c) Arrange for training and refresher courses for the managerial and office staff of Employment Exchanges.

Out of a total of the proposed 71 Employment Exchanges, consisting of one Central, nine Regional and 61 Sub-Regional Exchanges, 69 Exchanges have so far been set up in the country.

Employment Exchange work being of a technical character, requires a fully trained managerial staff. As this staff was not available in India, a staff Training Centre was set up in Delhi in June 1945 and has trained almost all the managerial staff consisting of 81 managers and deputy managers and 172 assistant managers.

Directorate of Technical Training

(iii) In collaboration with government factories, railways, Provincial Governments and civil industries the Directorate provides facilities for further technical training for such demobilised technicians as may need them for purposes of civil employment. Under the Scheme relating to the Technical training of demobilised services personnel, provision has been made for the training of 30,000 technicians per year in different engineering and building trades. The number of seats sanctioned so far, however, is approximately 10,000. The Scheme aims at securing an adequate supply of skilled personnel for the post-war development schemes, both Government and private.

Directorate of Vocational Training

(iv) This Directorate has prepared a scheme for the training of demobilised persons in non-engineering trades and vocations. Provision has been made for the training of 39,000 persons at a time and training facilities are being provided for in collaboration with both the Provincial Governments and private institutions.

Directorate of Publicity

(v) This Directorate organises publicity with a view to popularising the absorption of demobilised persons in civil employment. It canvasses private employers on their behalf also.

Disabled Services Personnel

(vi) In addition to the above, a scheme for the rehabilitation and resettlement of demobilised services personnel has also been sanctioned. It provides for the rehabilitation and training of disabled services personnel in a large number of clerical and commercial occupations and engineering, building and other technical trades. Training is also provided for in professional and semi-professional occupations as also in cottage industries and agriculture and allied occupations. Provision has been made for the training of a total number

of 7,000 disabled persons per year. Prior to demobilisation, disabled services personnel are treated at Services convalescent Rehabilitation Centres. Here attempts are made to remove the physical and medical disabilities to the extent possible. Thereafter, they are sent to the Basic Training Centres, where the actual benefit they will derive from any special training is ascertained. Persons found unfit or falling below the prescribed standard are discharged. The remainder are transferred to special training centres for further specialized training. It is of interest to mention here that whilst the S. C. R. Cs. are run by the Services the Basic and the Special Training Centres are managed by the Labour Department itself.

Training for Ex-Service Women

(vii) A scheme for vocational training of ex-service women has also been sanctioned. Its object is to train ex-service women in useful occupations in order to enable them to take up independent careers. Training facilities are being provided for 1,000 women per year in the first instance. Three centres, one each at Delhi, Bombay and Madras, are being set up. Training facilities will also be provided at selected institutions, both Government and private.

Directorate of Employment

(viii) A Directorate of Employment is in the process of formation whose function will be to tap all available sources and explore new avenues of employment for demobilised persons and keep abreast of all schemes of post-war development both at the centre and in the Provinces. The main function of this Directorate, as is obvious, will be "Employment Finding."

Factors Affecting Unemployment

5. With a view to providing employment to the persons thrown out efforts have been made to assess the level of employment at the end of August 1945 and the shrinkage that occurred in it thereafter.

6. Due to the sudden termination of hostilities and the consequent stoppage of war-time demands, the economy of the country which was formerly hitched to total war production has been temporarily thrown out of gear. The unflagging high pressure demand by Government for goods and services of all kinds during war-time stepped up production to unprecedented levels and created a stage of demand for labour which was as near an approach to full employment as any attained in this country.

7. The fall in employment consequent on the cessation of war is due to the following causes :

(i) Discharge of workers from factories engaged in war production ;

(ii) Releases from the Defence Services ;

(iii) Curtailment of workers from ancillary services; and

(iv) Diminution of economic activity, and shrinkage in the volume of trade, transport, etc., due to an all-round reduction of Government expenditure and cancellation of contracts.

In assessing the extent of unemployment that may be created owing to the play and inter-play of these various causes, it would be necessary to bear in mind the peculiar structure of Indian economy. Outside Government service, employment in this country may be grouped into two broad divisions, rural and urban. While the former is mainly agricultural the latter is connected with industrial activities and trade. It will not be out of place to mention here that during war period two important tendencies were observed. A very large number of persons living in rural areas moved to urban areas in search of employment and it is anticipated that 1951 census would perhaps show an increase of about 50% in the urban population over that in 1941. The second important factor is that Indian labour has now attained a greater mobility and has migrated outside the districts and provinces of residence in search of employment.

While the majority of the younger people who are thrown out of war-work or released from Services would gravitate towards the cities and urban areas, the older among them who have not acquired any special skill may tend to go back to agriculture or other rural occupations. It is estimated that about 50% of ex-servicemen would prefer to go back to agriculture and allied occupations. Alongside of the execution of plans for industrial expansion and increased urban employment we will also have to re-organise our agricultural economy so that a proper balance might be established between agricultural and industrial employment.

PROGRESS OF DEMOBILISATION AND ESTIMATE OF DISCHARGES

8. Phase I of demobilisation in Services commenced on October 15, 1945, and within 6 weeks it was estimated that approximately one lakh of persons were discharged from Army Training or Release Centres. The persons discharged were those who had service of less than six months' duration. It was considered necessary to release these men first to make room for further demobilisation.

Phase II of demobilisation commenced on the 15th of November and since then more than 9 lakhs of personnel of all ranks were demobilised from the three services up to the end of August 1946. This figure comprises releases from Navy, Army, Air Force, WAC (I) and State Forces.

According to a press quotation the total decrease in the strength of the Navy since the commencement of demobilisation and up to August 31, 1946 amounts to 18,601 made up of 1,558 officers, 16,367 ratings and 576 WRINS.

Since V-J Day and up to the end of August, 882,011 men and women were released from the Indian Army. Of these 5,016 were WAC(I) personnel.

Net decrease of officers serving in the Indian Army in all theatres is now 16,431. A total of 853,164 Indian ranks, including 30,375 civilians, have also been demobilised.

The total number of Indian State Forces personnel returned now amounts to 32,607. Nepalese returned to Nepal amount to 147 officers and 9,031 other ranks.

The total releases up to the end of August 1946 from the RIAF amount 13,929 viz., 142 officers, 6,902 airmen, 6,885 enrolled followers and 51 non-combatant technicians.

Discharges from Central Government Department

9. According to *Labour Gazette* about 640,000 persons have been discharged by the Departments of the Central Government between the 1st September, 1945, and June 1946. These fall under the following categories :—

Administrative and Supervisory	*Skilled and Semi-skilled*	*Un-skilled*	*Clerical*	*Total*
19,500	1,27,000	4,66,000	25,500	6,38,000

Estimates of Future Demobilisation and Discharges

10. It is estimated that another seven lakhs of persons will be discharged from the Services up to the end of March, 1947, and the entire WAC(I) organisation will be disbanded by that date. The discharges from the Central Government Departments are also likely to continue for at least sometime more. Estimates of discharges by the Provincial Governments have not been assessed nor are the figures of discharges from private factories, etc., which were directly or indirectly dependent on war efforts. Attempts have not been made to assess the shrinkage in tertiary employment nor the loss in employment due to the withdrawal of allied forces from India, particularly the forces of the U. S. A. It is, however, opined that shrinkage in employment due to facts enumerated above will be in the neighbourhood of five to six millions and the total number of men affected due to cessation of war-time activities will be approximately $6\frac{1}{2}$ to $7\frac{1}{2}$ millions.

RESETTLEMENT FACILITIES AND ASSISTANCE FOR EX-SERVICE-MEN AND DISCHARGED WAR WORKERS

11. Efforts made so far to resettle ex-Servicemen and those whose services have been classified as "War Service" have been through

(i) Reservation of posts in vacancies arising during the war period ;

(ii) Provision of posts in post-war schemes ; and

(iii) Special schemes exclusively for the benefits of ex-servicemen like land colonisation, co-operative farming, etc.

Special facilities have been provided for under the following schemes :

(i) Under Technical Training Scheme of the Government of India, besides free training the trainees are provided with free board, lodging and workshop clothing. In addition, each trainee is given an allowance of Rs. 15 per month. Facilities for games and recreation, physical training and medical treatment are also given.

(ii) Similar facilities have been provided to trainees under the Vocational Training Scheme, except that instead of Rs. 15 a stipend of Rs. 10 per month is allowed to each trainee. In addition to the stipend the trainees are entitled to a bonus determined on the basis of quality and quantity of various types of goods produced by them.

(iii) The disabled are provided with free medical and surgical treatment and hospital care. The rehabilitation training is provided free at the centres. In addition, free accommodation and rations on the services scale is also allowed.

(iv) For ex-service women, in addition to free training, facilities of hostel accommodation and messing have been provided free. The scheme also provides for a small pocket allowance to the trainees.

(v) The services rendered by the Employment Exchanges are free. Every effort is made to place individuals who get them registered in suitable vacancies notified to the Employment Exchanges by the employers.

(vi) In case of all training schemes, free travelling passes are issued or travelling expenses paid in cash to ex-servicemen from the demobilization centre or the place of residence to the training centres and on completion of training from the training centres to their place of residence.

An ex-serviceman registered with an Employment Exchange is given free pass or travelling expenses in cash where he has to appear for an interview with the employer when the distance to be covered is more than 20 miles from his place of residence.

Extension of Facilities

12. Due to rapid changes in the political situation in the country and due to a growing realization that it would be, *inter alia*, in the interests of ex-servicemen if the level of employment reached during war-time is maintained, if not actually surpassed, by alternative avenues of employment which would provide ample scope for all those who seek employment. A feeling of subdued resentment exists against any preferential treatment being granted to ex-servicemen or discharged war-workers. It is felt that ex-servicemen due to the training and sense of discipline they imbibed during service are already in a favourable position to compete as compared with other fellow discharged war workers.

It is, therefore, felt that the interest of ex-servicemen will actually be furthered if all those who seek employment are allowed the facilities of Employment Exchanges, becaues

this will encourage private employers to place their demands for workers with Exchanges which would have all categories of persons on their registers to cope with the varied demands. Recently certain Provincial Governments have thrown open the doors of Employment Exchanges within their jurisdiction to all those who are unemployed or under-employed. This is a step in the right direction.

13. In view of the size of the country it is further felt that the number of Exchanges must be augmented considerably if they are to be of maximum use. It might be stated in this connection that in the U. K. there are approximately 1,250 employment exchanges. Considering the geographical distribution of industries in India and their scattered location which mostly involves great distances, a scheme of mobile exchanges, which will cater to the needs of persons living in outlying districts without Exchanges, is desirable. It is understood that such a scheme is under the active consideration of the Government of India and a number of mobile exchanges would be set up in the near future.

In order that their objective may be achieved these exchanges would be a free mart where all those who need employment or desire a change in employment can go. They should also be able to offer useful advice as to one's fitness for a particular type of employment and obtain information about all existing jobs within and even outside the region served by them.

Demand for Technical Personnel in Post-War Schemes

14. A casual examination of the post-war schemes indicates that there will be a great demand in the very near future for technical personnel in different categories and trades. With the changed political situation in the country and transference of power into the hands of Indian political parties, it is felt that energetic steps will now be taken to execute the post-war plans which will not only provide expanding avenues of employment, but will also raise the economic standard of the population by producing goods

and services. Distributive trades are also likely to receive a fillip owing to general increase in economic and commercial activities. It is apprehended that there might be delay in execution of some of the schemes for want of sufficient number of technical personnel. Sir Ardeshir Dalal, former Planning and Development Member of the Government of India, in one of his speeches stated that planning and execution of plans were hampered due to the lack of technical personnel and statistics. The number of trained or retrained Services personnel under the technical training scheme will be insufficient to meet the demand. It is, therefore, considered all the more necessary that the scope of technical training scheme and the facilities provided thereunder should be extended to persons other than demobilised Services personnel. The number, nature and types of training provided would, however, depend on analytical examination of the plans themselves.

Man-power Main Asset of the Country

15. Mr. J. Vasuger, former Industrial Adviser to the Government of India, in a broadcast talk stated, "The first resource of any country, without any reservation, is its man-power. One may say that we have this resource—in its basic raw state—in superabundance. Left in this condition the human factor may become a liability rather than an asset. That is why so much emphasis is being placed today on all aspects of education, in order to turn the raw material into a product which will be capable of extracting the maximum from machines and from the earth. Our experience in this war, when crude villagers have been able to use, after a short time, the most complicated modern armaments, provides ample evidence that, when well-fed and suitably trained, Indian man-power can be turned into an asset."[1]

It is suggested that the nucleus of assessing the technical man-power, both available and required, can be set up with

1 Extract from *Indian Listener* 7th February, 1945.

a scientific compilation of details about men now being demobilized and discharged details about whom are already available. To start with the Register of Manpower may be confined to the skilled technical personnel who are in need of employment and as soon as this is completed the Register may be extended to cover also those who are in employment. The Central Manpower Register of Technical men and its regional counterparts will indicate the limitation of our man-power assets. This man-power will have to be distributed judiciously to augment the existing social services and industries, etc. and to start and sustain priority plan which are decided to be launched in the immediate future. The deficiencies in man-power will have to be made good by

(i) Giving refresher training to those who have some basic idea of the trades ; and

(ii) Giving training to requisite numbers selected from younger generation. The number of young men and women in our country is quite large. Given proper education and training, their services can be utilised for execution of bold and foresighted plans initiated by Central or Provincial Governments in the fields of social services, trades, commerce or industry and will be instrumental in achieving the cherished goal of full employment through organised and planned progress.

Training by itself, divorced from the actual need, is likely to be wasted and lead to frustration in individual lives.

16. The increase in the number of Employment Exchanges and the extension of Employment Exchange facilities to all those who seek employment will enable the Government of India to undertake an occupational census. This will indicate the types of persons who are available for employment in different districts. An analysis of the vacancies notified to these Exchanges will on the other hand enable us to know precisely the type of persons required by the employers at different places. This will enable balancing of labour

supply to avenues of available employment within a region and assist transfer of labour from one region to another and one industry to another.

STATISTICS AS BASIS FOR PLANNING

17. Successful planning of employment, its maintenance and its expansion depends upon full and continuous knowledge of not only the needs of the country for goods and services but also of the manpower and material resources. This will enable the most effective use both of manpower and the material resources. In short it means an appreciation of all the facts bearing on India's economic position. It, therefore, seems essential not only to collect but also to co-ordinate the facts which will enable the Government to chalk out their policy. It will not be out of place to quote from the White Paper on employment policy in the U. K. presented to Parliament: "The success of the Government's policy will thus depend on the skill which is shown in putting general ideas into day-to-day practice. It is therefore vital for them to obtain more fully and much more quickly than they have in the past, exact quantitative information about current economic movements. Without this, informed control would be impossible and the central staff which it is proposed to set up would be left to grope and flounder in uncertainty. The Government appeal with confidence to industry to join with them in a task which is essentially co-operative; for only industry can provide the statistical information required and only a central authority can classify and analyse information drawn from the country as a whole. Just as the central organisation of a successful business must be in a position to know what is happening to each of its various branches so the State cannot make plans without knowledge of what is happening throughout the whole range of industry and commerce. Information provided for this purpose will of course be treated as confidential; and figures will not be published in a form which would prejudice the position of any individual firm."

The White Paper details the types of statistics which must be obtained for the efficient operation of an employment policy, which among others includes the following items :

(a) Statistics of employment and unemployment, including quarterly or monthly statements of present and prospective employment in the main industries and areas in the country, based on returns from employers ;

(b) An annual census of production showing the structure of the main groups of industries in the preceding year, including, *inter alia*, details of the quantity and value of output, stocks, and work in progress ; and

(c) Monthly figures of production, consumption and stocks, and, if possible, figures of orders on hand, based on sample returns obtained periodically throughout the year from large firms, trade associations, and public institutions.

Different Departments of the Government of India are individually collecting piecemeal information on different aspects which affect employment position. These need effective co-ordination and should be subject to continuous review and adjustment. It would only then be possible to utilize it as a basis for determining what measures are required to maintain employment and secure a rising standard of living. It will be essential also that at every stage there should also be preliminary studies of the manpower position as indicated in paras 15 and 16. These studies should indicate the probable supply of labour over the coming period, the prospective changes in employment in the different industires and agriculture and the effect upon employment by Government sponsored projects.

OBJECTIVE TO BE SECURED IN INDIA SIMILAR TO THAT IN U. K. AND U. S. A.

18. Briefly stated, the object of the Government of the U. K. may be summed up as "seeking to achieve both work for all and a progressive increase in the economic efficiency of the nation, as joint elements in a growing national power to produce, earn and to enjoy fruits of increased well-being."[1]

The Government proposes to achieve the objective by establishing on a permanent basis a small central staff qualified to measure and analyse economic trends and submit appreciation of them to the Ministers concerned. The U.K. Government realised that during the early crucial years in particular the responsibilities of this central staff would be very heavy for, many of the decisions required to carry out the Government's employment policy would depend on correct appreciation and accurate diagnosis of the problem.

The policy initiated in the White Paper has already borne fruits in practice. While the Prime Minister, Mr. C. R. Attlee, in his nationwide broadcast talk to the British people on 3rd March, 1946 said that there was work for all, Mr. Herbert Morrison has gone a step further and has asserted in the House of Commons that Government wish to order their economy in such a fashion that full employment of the nation's manpower would not only be assured for many years to come but for all times.

19. The U. S. A. which was also similarly faced with the problems of resettlement during transition from war to peace economy, records unemployment figures at very low levels, probably the lowest for any peacetime year since the United States became an industrial nation. Mr. John Steelman, Director of U. S. Office of Reconversion, while reviewing the record of progress made in the United States during the 12 months since Japan's capitulation stated, "In July, 1946, the civilian labour force of 60,400,000 included

1 Extract from para 87 of the White Paper on Employment Policy, No. 6527.

58,100,000 persons with jobs and about 23,00,000 actively seeking jobs. Not only is the civilian labour force larger than ever before, but the proportion of unemployed is probably the lowest for any peacetime year since the United States became an industrial nation. No significant increase in unemployment is expected in the remainder of the year. Labour shortages are beginning to appear in some areas and in some industries. Fewer than one million recently demobilised war veterans are still looking for jobs. The remainder of the unemployed are primarily workers changing jobs."[1]

Economic Advisory Council for Planning of Employment Policy

20. In India the objective is to raise the standard of living of the masses. This among other things means providing for full employment. If the above object is to be secured it is essential to have an Economic Council of the type set up in the U. K. and the U. S. A. This Council should be directly responsible to the Members of the Cabinet. A man-power register of available technical skill in the country is also essential. The need for and collections of accurate objective and quantitative data cannot be over-emphasised. In this connection it will be of interest to know the opinion of Sir M. Visvesvaraya, the doyen exponent of Indian industrialism in support of the need and collection of statistics : "The greatest need today is to collect statistics in order to give the Indian people a true picture of the position of industries in the country and also to mark the starting point of developments under the new Governments both Central and Provincial.

"India is ripe for the rapid advance and, if work proceeds on a plan and strict discipline is enforced in its operation, the new Government will be creating opportunities for raising production to unheard of levels, with the greatest economic benefit to the nation."[2]

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1 Extract from an article from the *The Statesman*, Aug. 26, 1946.

2 Sir M. Visvesvaraya's (President, All-India Manufacturers' Organization) message while on tour with the All-India Manufacturers' Delegation on visit to the U. S. A. and Canada as quoted by the A. P. I.

Conclusion

21. The problems of demobilisation and resettlement are many and varied. In the foregoing paragraphs an effort has been made to outline some of the important problems and to offer their solution. It needs be emphasized that resettlement of demobilised services personnel and discharged war workers treated in isolation from the general problem of employment in country is likely to result in failure and cause frustration in the country. This problem should, therefore, be tackled within the larger framework of switchover of India's economy from war to peace time basis. The objective to be secured is to raise the standard of living of the masses. This can only be achieved by producing more services and goods, internally, and through a judicious exploitation of the natural resources of our country and by larger exports and imports. The first essential is to mobilise the manpower of our country. The efficient execution of priority plans in connection with food and clothing, health and medical facilities, educational and training schemes, and rehabilitation and expansion of our industries and commerce depend on it. A just solution of these will ease the problems of resettlement of ex-servicemen and discharged war workers, as there will be more fruitful productive avenues of employment to absorb many times more than the number that has been and will be displaced due to cessation of hostilities.

Admittedly, the economic problems that face India differ in many respects from those in other countries. She hardly claims a parallel in this respect. Demobilization is raising the septre of unemployment and economic insecurity in the country during the transitional period from war to peace economy. If the lessons of solving unemployment problems by the U. K. and the U. S. A. which primarily arose out of demobilisation are made use of and applied in India with *mutatis mutandis* changes, it can be made the starting point and basis for achieving full employment as has been in other countries.

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II—AGRICULTURE

AGRICULTURAL POLICY FOR THE FUTURE

By

N. G. Abhyankar

It is common knowledge that nearly 87% of India's population of over 400 millions primarily depends for its livelihood directly or indirectly on agriculture. The principal occupation of the millions is, however, carried on at a very low level of efficiency. The resources in agriculture and animal husbandry constitute the greatest national asset. But, under the present organisation and technique, these resources are hardly being utilised fully and economically so as to yield the maximum benefit to the individual producer and to the community. The average agriculturist in India today lives a precarious and miserable existence. Absolutely dependent on monsoons, his occupation proves a gamble in rains. A widespread draught or heavy floods often spell a considerable reduction in his individual real income and create conditions of acute scarcity for the community. The fruits of scientific research are more or less unknown to his technique of production. Sound man-made organisation does not assist him in getting the most out of his production or marketing operations. With primitive implements he toils year in and year out on small scattered and fragmented pieces of land to feed a population which is growing at a terrific rate. The first charge on whatever small yield he can secure at the end of a year's toil consists of the various monetary obligations, not always reasonable, which he has to meet such as the interest of the creditor, the rent of the landlord, the revenue to the Government and the deductions of the middleman before he can retain a margin for the maintenance of himself and his family. Heavily in debt, steeped in illiteracy and exposed to wide fluctuations in the fortunes of his occupation resulting from biological, seasonal and economic changes, he has little or no incentive to take to new ideas or improvements. Considering the odds against which the average actual cultivator labours at present, it is a matter of

surprise that he at all sticks to his occupation. The plain fact of the matter is that, owing to the under-development of physical resources and the lack of adequate avenues of gainful employment, the growing population has no alternative but to fall back on land and swell the ranks of those who are, in fact, surplus to agriculture and suffer from "disguised involuntary" unemployment. In the circumstances, agriculture is followed more as a mode of living and a means of subsistence rather than as a profitable industry.

While this is broadly the picture of the rural India of today, the development of resources in agriculture and animal husbandry cannot be said to have been commensurate with its full potentialities. On the one hand, for months on end the cultivator looks up to the sky and prays for an adequate and periodic monsoon ; on the other hand, the waters of the large rivers such as the Damodar, the Brahmaputra, the Mahanadi, the Godavari and the Cauvery run to waste to the seas, causing widespread devastation to crops, cattle and property in their mighty and turbulent course during the peak of the rainy season. If harnessed and stored through multi-purpose projects, these waters can prove a tremendous source of cheap electricity for rural industrialization and of assured water supplies for crop cultivation. Given a sound and rational organisation in the field of production, finance, marketing and distribution and the widest application of the known results of past scientific research, the average yields of the principal crops and, consequently, the real physical "income per acre" in relation to cost are capable of being stepped up substantially in the interest of the producer and of national output.

2. It is against this background that the agricultural problem in India must be approached and agricultural policy for the future formulated. The agricultural policy must be directed to put into operation as rapidly as possible a series of integrated organisational, technological and economic improvements designed to secure the two primary objectives : (a) to ensure for the average cultivator at the end of a year's toil a level of income which is sufficient to cover his

cost of production and leave him a net margin for a reasonable standard of life for himself and his family treated as a unit and (b) to ensure that the resources in agriculture and animal husbandry are effectively and economically utilized so as to produce the maximum output at the minimum cost and meet the food requirements of the growing population and the raw materials needed for the industry and the export trade to the maximum extent feasible.

3. There is an urgent need for clear thinking about the basic factors which determine the real income and the standard of life of the agriculturist. Broadly speaking, the standard of life of the average producer is governed by his net real income, his habits, education and the general environment. In the main, it is the margin between his income and outlay or his net income which provides him the wherewithal to command certain essentials of life which make up his living standard. In the ultimate analysis, the net income of the average producer depends on (a) the size of the current output of his yearly agricultural or animal husbandry operations, (b) the value of the current output and (c) the costs or expenses of production and consumption connected with these operations.

As regards (c), it may be possible to raise the net income by regulating certain elements of the current expenses of production. The reform of land tenure designed to give security of tenure and reasonable rents ; the regulations of money-lending and interest rates coupled with a rapid adjustment of accumulated debts and the creation of effective alternate agencies for meeting the credit needs of the cultivator at a reasonable cost ; a review of the land revenue system with a view to re-constructing it on the principles underlying the income-tax system and the creation of organised marketing agencies with a view to regulating the deductions of the middleman and enlarging the share retained by the cultivator; these economic and organisational measures may reduce the costs of his operations and enlarge his net income and ought to be given a priority in a development programme.

As regards (b), it is necessary to be clear about the extent to which the manipulation of the value of agricultural produce can serve as a means of raising the income of the producer and the limitations of this policy. Such a manipulation can be attempted in two ways. First, the State may undertake to fix and maintain the price at a level at which it would cover the costs of production of the bulk of representative producers and leave them a margin for a reasonable standard of life or secondly, in a given income-cost structure, the State may attempt to manipulate the "terms of trade" or "the ratio of exchange" in favour of the agriculturist through an attempt to maintain a reasonable relationship between agricultural and industrial prices on the basis of the Parity principle adopted in the U.S.A.

The first alternative appears to be impracticable in the existing conditions in India of which the following features deserve special consideration :

(i) In view of the acute deficit nature of the representative farm-economy and the low physical yields per acre, the costs of production per unit on the most representative farms are relatively very high.

(ii) Owing to the under-development of resources and the rapid population growth, the general level of employment, production and per capita income are low, large sections of population suffer from a chronic state of "disguised involuntary" unemployment, lack of income and effective purchasing power and, consequently, the general level of consumption of even the elementary essentials of life such as food, clothing and housing is one of the lowest in the world.

In these circumstances, an attempt to fix and maintain agricultural prices on the basis of the representative producer's costs will defeat its own purpose of enlarging the producer's real income. The size of the income of the producer is governed both by the price per maund and the existence of an assured and expanding market for his produce. The price fixed on the representative producer's costs will be so

high that, what the producer will gain by way of relatively high price per maund will be offset by a reduction in consumption and total turn-over and sales at home or the export market. Moreover, such a unilateral effort will raise the costs of the manufacturing industry, impair its competitive position and hamper the general development programme.

The second alternative seeks to secure to the agriculturist (i) a relative price stability over a given period of time and (ii) a relative larger share in a given income-price structure—not a general increase in the income level as a whole—at the expense of other sections of the community. The price which the producer will fetch 9 to 12 months after his productive labour is over, is an important consideration and an assurance of a stable price over a period of time—not necessarily a high price—does act as a powerful incentive to the producer in co-operating fully in a campaign to raise the efficiency and to increase yields. The second type of price manipulation should, therefore, be attempted as an integral part of the general development policy.

In the conditions of low yields per acre and relatively high cost per unit of production, the low general income and consumption level and the general state of disguised unemployment and population growth, the future economic policy for agriculture has to find a solution for the apparently conflicting claims of (a) an expanding income and market for the producer, (b) a falling price level with a view to raise the general consumption which is admittedly low and (c) an expanding total level of production at decreasing average costs per unit of production. With these considerations in view, the agricultural policy has to be an integral part of a general development plan designed to maximize the general level of employment, income and output through an appropriate monetary policy, supported by a rapid development and diversification of industries, planned programme of public works such as major and minor irrigation projects ancillary to a re-organised and scientific agriculture, rural and urban communications and housing, etc. It is well to recognise, however, that for any measurable distance of time, even the

most intensive development on these lines will not produce a spectacular increase in the general level of employment, incomes and output which would tend to be low as compared to other advanced countries. The primary aim of agricultural policy must, therefore, be to raise the efficiency of production and per acre yields relatively to costs so that an increasing output could be produced at a progressively reducing level of costs having a reasonable relationship with the purchasing power in the pockets of the general mass of consumers.

It would be clear from the discussion that for an effective and real increase in the income of the producer, greatest possible attention must be paid to an increase in the size of the current output of his yearly agricultural or animal husbandry operations in relation to costs. That this is capable of achievement is borne out by a comparison between the existing agricultural yields with those in other progressive agricultural countries as shown in the table below :[1]

Rice.		Wheat.		Cotton.	
Yield per acre (in lbs.) 1938-39.		Yield per acre (in lbs.) 1924-33.		Yield per acre (in lbs.) 1937-38.	
Country.	Yield.	Country.	Yield.	Country.	Yield.
India	728	U. S. A.	846	Egypt	531
Burma	959	Canada	972	Peru	508
U. S. A.	1,469	Australia	714	U. S. A.	264
Italy	2,903	Argentine	780	Brazil	154
Egypt	2,153	Europe	1,146	India	89
Japan	2,276	India	636		

The experts hold that, given a sound organisation of production, assured water supply and an intensive use of manures and improved seeds, there is a very large scope for

1 Source : Quoted in Dr. Burn's *Technological Possibilities of Agricultural Development in India.*

stepping up the agricultural yields in India. It is realised that if the cultivator is to use improved seeds at a premium or purchase manure which he did not use before, his gross expenses of production per acre will tend to increase. The use of these improvements is, however, advocated and can be justified only if the additional yield will be sufficient to cover the additional expenses incurred and provide a margin for expanding the income of the producer or facilitating a reduction in the price to the consumer. This point can be illustrated by the following example. Suppose the standard yield of wheat is 10 maunds and the price is Rs. 8 per maund and through an intensive effort over a period of years the yield is stepped up from 10 to 15 maunds and the additional costs incurred are covered by an extra 3 maunds yield valued at Rs. 8 per maund. The balance of 2 maunds in that case will either mean an extra income of Rs. 16 to the producer or even if the prices were to be reduced, it will still mean that he will be better off than before while the consumer will derive the benefit of an improvement in agricultural efficiency as reflected in the reduction in the prices. A concentrated drive to step up agricultural yields in relation to costs per unit of production must, therefore, be treated as the sheet-anchor of the agricultural policy for the future.

4. The second objective of the agricultural policy must be to secure the most efficient and economical utilization of resources so as to produce at the minimum cost the maximum output of foodgrains for the requirements of the growing population and raw materials for the needs of the industry and the export trade. The task of assessing the existing resources and the practical possibilities of development is rendered somewhat difficult by the defective nature of Indian agricultural statistics. The available statistics are not comprehensive, accurate and reliable. All the administrations including all the Indian States do not regularly collect statistics of area and production. This information is also not maintained in respect of all the food crops and cash crops which are grown. The statistics of even those areas which collect and report them normally are faulty. As regards area statistics, those in the ryotwari tracts are main-

tained by the revenue-agency and are, more or less, acceptable while those in the permanently settled areas are largely in the nature of a guess work. The yield estimates are arrived at by multiplying the total area figure by a "standard yield" modified by the seasonal condition factor. The standard yield is based on a limited number of crop-cutting experiments and is not representative. There is considerable room for improvement in the yield figures by properly conducted random sample surveys and also for collection and maintenance of all statistics relating to production, stocks, and distribution by a compact statistical organisation at the headquarters of each province and state and its co-ordination at the Centre by a similar organisation. These statistics are, however, the best available data and since they are compiled on the same basis and by the same machinery over a series of years, they serve a comparative purpose of showing variations in the area and yield of crops from year to year. According to the available statistics of reporting areas, the total area of British India and Indian States and its distribution between food and non-food crops is as follows :

[1]Total Area *(Average of 3 years ending 1939-40)*	Million Acres.[1]
(i) British India and Indian States reporting statistics (66% of the total area)	664·5
(ii) Non-reporting areas in British India ..	35
(iii) Non-reporting Indian States	309
Grand Total ..	1,008·5
A. *Total area under :*	
(i) Major cereals	177·7
(ii) Other foodgrains and pulses	58·4
(iii) Other food crops including Tea and Coffee	31·6
Total food crops ..	267·7

1 Source: Agricultural Statistics of India.

B. *Total area under:*

(i) Cotton and Jute	.. .. ..	24·3
(ii) Other non-food crops	.. .. ..	24·6
Total non-food crops	.. ..	48·9

5. The experience during the war has exposed the weaknesses of India's food economy and has emphasized the imperative need for increasing food production to the maximum extent possible in the shortest possible time. The main cereals—rice, wheat, *bajra*, *jowar*, maize, barley, *ragi* and minor millets—constitute the staple food of the people of India. This is supplemented by gram and pulses, oils and fats, *gur* and sugar. Certain sections of the population habitually consume fish and meat. Such protective foods as milk, vegetables and fruits and eggs, both because of their limited production and high prices, are beyond the means of the majority of the population. The most important features of India's food economy can be briefly stated as follows:

(i) The overall internal supply of cereals, pulses, vegetables, fruits, milk and other protective foods considerably falls short of the nutritional requirements of the population. The table on p. 84 shows the estimated gap between the nutritional requirements and the available supplies in respect of cereals, milk, fruits and vegetables. In judging the statement, the following two points may be noted: (a) The figures of the total cereal production relate to both the reporting areas as well as the non-reporting areas for which figures have been specially collected. (b) The nutrition experts recommend a cereal quantum of 1 lb. a day as a part of a total daily ration of 40 ozs. or 2½ lbs. a day, consisting of other supplementary foods. It is common knowledge that the supplementary foods such as vegetables, fruits, milk and eggs are not available and, if available are not within the means of the bulk of the population. In the circumstances, the nutritional cereal requirements ought to be calculated on a daily scale higher than 1 lb. a day. The Indian jail ration is a cereal quantum of 1½ lbs. a day.

The estimated gap between the nutritional requirements of India's population in terms of "adult units" and the estimated average internal supply (excluding imports) of principal foods. Population = 389 millions (as per 1911 census) + 15 millions (5 millions increase per year during 1941-44) = 404 millions converted into "adult units" at 100-80 = 323 millions.

The Composition of ideal diet as recommended by Dr. Akroyd 1	Rate of consumption per adult unit per day as per col. 1 2	Nutritional requirements on the basis of total adult units x rate given in col. 2 x 365 days (in Million tons) 3	Total production (average of 5 years 1938-39-1942-43) 4	Allowances for seed and normal wastage at 12½% (million tons) 5	Net supplies available (Col. 4-Col. 5) 6	Estimated gap between requirements and available resources. (Million tons) 7
1. Main and supplementary cereals ..	16 oz.	52·62	56·34	7·04	49·3	3·32
2. Pulses (including gram)	3·0 oz.	9·87	7·4	0·9	6·5	3·37
3. Sugar	2·0 ,,	6·58	4·95	..	4·95	1·63
4. Vegetables	6·0 ,,	19·74	10·73	..	10·73	9·01
5. Fruits	2·0 ,,	6·58	1·80	..	1·8	4·78
6. Fats & Oils ..	1·5 ,,	4·93	1·90	..	1·9	3·03
7. Whole milk ..	8·0 ,,	26·32	23·12*	..	23·12	3·20
8. Meat, fish and eggs	2 to 3·0 ,,	6·58 or 9·87	1·50	..	1·5	5·08 or 8·37
	40·5 oz. or 41·5 oz.					

* In terms of liquid milk taken from Milk Marketing Report.

Source : The statement has been prepared on the basis of data published in (*a*) Health Bulletin No. 23, and (*b*) Agricultural Statistics of India.

(ii) This insufficient overall supply of foodgrains is not a "constant average quantity" but is subject to wide fluctuations varying from 1 to 3 million tons from year to year owing to the absolute dependence on the monsoon. In years of draught or floods, large masses of population are denied even the inadequate supplies which they are accustomed to get in average years.

(iii) Apart from fluctuations in the overall crops and supply, certain traditional famine areas in the country such as the Deccan districts of Bombay, the Ceded districts of Madras, the Hissar district in the Punjab, and some of the Rajputana and Deccan States are exposed to recurring chronic failure of rains and consequent scarcity and famine conditions. These areas present a Special Area problem requiring a special Rehabilitation Administration and programme.

(iv) Owing to under-development of resources, the general level of income is low and a large section of the population suffers from disguised unemployment with the result that the population in general has not got the necessary money-income to purchase at the prevailing prices the minimum daily quantum of food and foodstuffs considered desirable from the nutrition standpoint. A recent evidence of this fact is that notwithstanding the non-availability and high prices of supplementary foods, the actual offtake of cereals has amounted to only 60 to 80% of the standard ration of 1 lb. a day in most rationed areas. Inadequate overall supply coupled with low incomes or lack of incomes or purchasing power result in serious under-nourishment and under-consumption of a large percentage of the population.

(v) The supply of protective foods such as milk, vegetables, fruits, eggs, meat and fish is inadequate, their prices are high and, in consequence, these commodities are normally beyond the means of the bulk of the population. The food economies of a number of areas in the matter of production and consumption are "one crop economies" such as "rice economies" of Eastern and Southern India with the result that that particular cereal predominates in the normal diet

of the population. Side by side with under-nourishment, mal-nutrition is a common phenomenon which makes the population easy victims of epidemics and diseases following in the wake of general scarcity conditions.

(*vi*) The total crop of about 55 to 60 million tons of cereals is produced by millions of cultivators scattered all over the 7 lakhs of villages. Nearly 60% of the total annual yield is retained by the producer for seeds and consumption purposes and, in normal times, the balance goes into the hands of an army of unorganised and unregulated middlemen. Unlike a small country which imports bulk of its food requirements and can bring them under the physical control of Government at the small number of bottle-necks offered by the ports, in a vast country like India, the problem of physical procurement of grains from the producers and its mobilization in the hands of a Government-agency presents formidable difficulties.

(*vii*) The storage facilities for grains are unsatisfactory and result in substantial losses of grains in storage or transit and also limit the security available for marketing finance.

(*viii*) The question of quality of foodgrains and cash crops also requires a very careful scrutiny with a view to raising the standards which have inevitably deteriorated during the regime of control in this country in common with other countries.

(*ix*) The location and the organisation of subsidiary industries such as the flour and rice mills, has also outlived the pre-war conditions and their equipment is outmoded in many cases.

It will be observed that the problem of ensuring food for all, of adequate quantity and requisite quality, presents a wide variety of objectives to be achieved. The resources for development being limited, even in regard to the objectives it is necessary to draw up an order of priority. An adequate supply of cereals and pulses to give full nourishment

to the population must take precedence over increased supply of vegetables, fruits and other protective foods with a view to raising the nutritive standard of the diet. For this purpose, the possibilities of expansion in local production have to be assessed and the scale of imports to be determined. So long as risks attendant with draught or floods remain unregulated through development of multi-purpose projects, the maintenance of grain reserves to offset the scarcity conditions in bad years has also to be tackled. Simultaneously, steps have to be taken to raise the income and the purchasing power through industrialization and public works programmes so that the population can, in fact, get the desirable minimum daily quantum of food. The cottage industries must play a part, but the relative priority to be assigned should be determined by the actual employment-creating value of the schemes rather than a fashionable imitation of such hackneyed schemes as bee-keeping, coir-matting etc., whose benefits as supplementary income and employment-yielding avenues are of doubtful nature. A planned location of large-scale industries directly connected with agriculture such as cotton spinning and weaving, vegetable-ghee and sugar in the heart of rural areas, subject to climatic considerations, will go a long way in providing supplementary employment and incomes to the rural population. The general problem of grain storage for normal commercial transactions and for reserves has to be taken up with a view to minimizing storage and transit losses. A country-wide network of licensed warehouses of approved types, under the auspices of the State, will provide additional storage capacity and increase the security available for market-finance. In the light of inter-provincial trade data collected during the war, the location of subsidiary food industries like flour and rice mills should be reviewed. In deciding the location, the possibility of encouraging the setting up of new mills in backward areas such as Assam or Eastern States where they will assist procurement or improve the keeping quality of rice which is now hand-pounded or flour mills in deficit wheat-consuming areas so as to raise the keeping quality of wheat products and avoid losses through transit deserve consideration. Simi-

larly, the rice mills may be encouraged to import machinery incorporating latest processes of drying paddy and flour-mills to import plants fitted to produce a product of higher nutritive value like whole-meal *atta* or flour.

6. Prior to World War II, Indian agricultural production was largely adapted to the needs of a flourishing export trade. Tea, coffee, cotton, jute, and oilseeds predominated in the export trade and, in common with the other primary producing countries, the income of the Indian agriculturist came to be largely determined by the fortunes of these staple commodities in the international markets. Since the adoption of the policy of protection and the re-orientation of the export markets during the Depression, there has been an increasing tendency to utilize these raw materials for meeting the growing needs of the Indian industries such as cotton, jute, sugar, etc., which provide an increasing market for the Indian agricultural produce. The loss of export markets in general and the Japanese market in particular for short staple cotton and the European markets for the oilseeds and jute caused a comparative slump in the prices of these cash crops in the early years of war. Oilseeds and jute, however, soon recovered partly owing to the war demand and the increased demand for oil for consumption and as the raw material for vegetable-ghee industry. The position of short staple cotton, however, did not materially improve during the war years. The loss of export markets on the one hand coupled with the worsening internal food situation on the other, resulted in a shift in the terms of trade between cash crops and food crops and the relatively high prices of food crops were a major factor in the switch-over from cash crops to food crops. *Jowar*, *bajra* and maize are substitute food crops for cotton and paddy for jute. The climatic conditions and the relative price ratio of these commodities do affect to a considerable degree the acreages under these alternate crops. The switch-over from cotton to *bajra* and *jowar* and jute to paddy was one of the main planks of the increased food production efforts made during the war. The following figures show the average yield of cotton, jute, rice, *bajra*, *jowar* and maize from 1938-39 to 1943-44 :

Area (in million acres)

Years.	Cotton	Jute	*Bajra*	*Jowar*	Maize	Rice
1938-39	23·5	3·2	19·8	37·1	8·2	78·3
1939-40	21·6	5·7	20·4	37·0	8·3	78·1
1940-41	23·3	2·1	21·6	37·0	8·2	76·9
1941-42	24·2	2·2	21·9	38·0	8·1	77·4
1942-43	19·2	3·3	26·3	40·0	8·7	79·1
1943-44	21·1	2·6	24·2	39·4	8·7	84·9*

Yield

	(In million bales)		(In million tons)			
1938-39	5·1	9·7	3·0	7·2	2·5	26·1
1939-40	4·9	13·2	2·9	7·3	2·9	27·5
1940-41	6·1	5·4	3·7	7·9	2·9	23·8
1941-42	6·2	5·5	3·7	7·0	2·6	27·0
1942-43	4·7	9·1	4·7	7·4	3·0	26·6
1943-44 . ..	5·2	7·0	4·2	7·4	3·0	32·4*

The restriction of jute acreage started from 1940-41 and the campaign to divert the area from cotton to *jowar*, *bajra* and maize, commenced with the season 1942-43. About 4 to 5 million acres were diverted from cotton to *bajra*, *jowar* and maize during 1942-43 and 1943-44, but the additional yields have not been proportionately larger. This shows that the effects of a powerful drive to regulate crop acreages can be offset by a failure of rain, both in its volume and periodicity. The relation between the paddy and jute acreages has not been borne out by these figures. This may be partly due to the fact that the basic acreage under jute in 1939-40 was large and the drastic reduction in the following years left room for simultaneous increase in paddy and jute acreages.

As soon as the export markets revive and the demands of the domestic industries expand, not much reliance can be

* The statistics of area and yield for rice for 1943-44 show a sudden jump which is largely due to a change in the system of calculation adopted in Bengal which has the largest area under rice.

placed on the diversion of acreage from cash to food crops for increasing food production. Moreover, the reduction in the acreage under cotton or groundnut implies a reduction in the supplies of oil-cake for cattle feed or manurial purposes, which in its turn may adversely affect the production of milk or crop yields. The acreages under cash crops like cotton and jute will primarily have to be determined in the light of (*a*) the demand of Indian industry for current output and stocks and (*b*) the export demand. Since the relative price ratios of these alternate crops influence the actual acreages sown and the total production, a deliberate planning of acreages under these alternate crops will have to become an integral part of the agricultural policy.

7. An attempt has so far been made to set out the objectives of agricultural policy and to indicate the principal problems which will have to be tackled. The policy for their solution must be directed to the formulation and implementation of a series of integrated technological, economic and organizational improvements with a view to securing primarily maximum yields per acre in relation to costs. The task must be approached in the same manner as the economic preparation and mobilization of resources for a total war effort. In such an effort, it will be necessary (*a*) to determine the targets of additional production to be secured in a given period in specified areas, (*b*) to draw up an order of priority of the measures to be undertaken in the light of availability of resources and to co-relate each of these measures to strictly pre-determined results to be obtained and (*c*) to provide adequate organisation to execute the programme of action, and to watch and report on the results and to make adjustments.

8. The targets of increased food production may be based either on (*a*) the estimated gap between the total nutritional requirements and the available resources or (*b*) the cereal-deficit constituted by the pre-war net import figure modified by the additional requirements due to the annual increase in population. On a nutritional basis, the gap will appear to be about 3 to $3\frac{1}{2}$ million tons with a further 670,000

tons per year for the annual population rate of increase of 5 millions. So long as the general level of income, purchasing power and consumption has not been effectively raised, the target on the hypothetical nutritional basis will appear to be an ambitious one. Alternatively, the target can be fixed on the net pre-war import demand of about a million-and-a-half tons with adjustments for the annual population increase.

9. As regards the measures, during the war the increased food production efforts were based on the following planks: (1) a switch-over from cash to food crops, (2) intensive measures to raise productivity and yields through assured water supply, improved seeds and manure distribution and (3) bringing under plough fresh land described as "culturable wastes" or fallows. As indicated in the previous discussion not much reliance can be placed on (1). As regards (2), the first and foremost priority will have to be given to assured water supply. The maximum number of multi-purpose projects for large scale reservoirs, dams and hydro-electric generation on the principal rivers must be given the highest priority in the Development Plans. It is open to argument whether such projects which will take between 8 to 20 years for completion should be given a priority over minor irrigation schemes. These projects are partly in the nature of a provision of resources at the expense of current consumption as an insurance against the known risks of Nature and partly as instruments of developing the physical resources and strengthening permanently the fabric of rural economy. Having regard to the position of absolute helplessness to which the average agriculturist and the community are exposed owing to the dependence on monsoons, there can be no two opinions about the degree of priority to be accorded to these schemes. An equally high priority should be given to a wide extension of tube wells, open surface wells, tanks and small dams with pumping plant installations. Each administration must first determine the location of areas where each type of well can produce the best results, then assess the availability of materials such as bricks, steel, cement, and coal and undertake the sinking of wells on the widest practicable scale to provide assured water supply to as large an area as possible.

Two other measures which are calculated to raise yields rapidly are intensive use of manure and improved varieties of seeds. It is the expert view that the use of manures and improved seeds will yield the best results if they are used in conjunction with assured water for the soil. The intensive distribution of manures and improved seeds should, therefore, be concentrated in the initial stages on the irrigated areas or dependable rain-fed areas where the risk of draught or floods is considered to be at the minimum. The manure distribution target should aim at covering the entire irrigated area under wheat and rice within the shortest possible time. On this basis, the quantity of manures required should be worked out and steps should be taken to produce, collect and distribute through a network of seed stores all types of manures such as (*a*) the farm-yard manure, (*b*) village and town compost prepared according to Bangalore process (*c*) ammonium sulphate in conjunction with bonemeal or oil-cakes and (*d*) green manure seeds. The conservation of farm-yard manure will not be a practical proposition unless the scheme is linked up with village plantations to create fuel-reserves and provide an alternate cheap fuel to the villager.

10. As regards seeds, each administration should determine the period in which the entire area under principal crops will be covered by the known improved varieties and work out the total quantity of improved variety of seeds required. On this basis, steps have to be taken to establish Government farms and make A and B growers' arrangements for the multiplication of the improved seeds and also for distribution of the seeds through seed stores. The actual target of work will have to be modified in the light of estimated total quantities of manure and improved seeds which it would be practicable to produce and distribute during a given period.

11. A real development effort will mean large scale investment of public funds and such an expenditure will be justifiable only if concrete results could be obtained from the given expenditure. During the war, an extensive system of food control and administration comprising of procurement through a single Governmental agency of all the marketable

surpluses of grains at controlled prices and the distribution of these supplies through controlled channels and ration shops has been built up. So long as these controls continue, it would be an advantage if the intensive "Grow-More-Food" effort by way of use of manures and seeds in specified areas is linked up with a procurement effort in the form of advance contracts with the producers in specified areas to deliver the expected additional quantities of food at specified prices. This is, perhaps, the only means of ensuring that the given expenditure of public funds does produce specific concrete results.

12. As regards (3), the *Agricultural Statistics of India* report nearly 118 million acres as "culturable" but not cultivated waste and 60 million acres as current fallows. In the existing technique of agricultural production, keeping lands fallow is a normal rotational practice and unless more definite guidance about the crop rotation could be given it cannot be interfered with to any large extent. The possibility of green-manuring the lands kept as current fallow and growing a cereal crop in the following season, however, requires examination.

The large area of land described as culturable but not cultivated has often invited comments. It is true that a very large portion of this land may not be cultivable at all, or the factors which account for their remaining uncultivated may be such as to require large-scale capital expenditure. The growth of deep-rooted weeds like the *kans* in the U. P. or *hariali* in the C. P., the alkaline nature of the soil, prevalence of malaria and wild animals may be some of the factors which hamper development of these areas. No systematic survey has, however, yet been made in order (*a*) to locate these blocks of land and their extent and (*b*) to determine with the aid of an expert team of an agriculturist, an engineer and a forester what crops can be economically grown or the type and scale of capital investment which might be necessary for their proper development. In view of the urgent need of growing more food and non-food crops including village-plantations, such surveys should be con-

ducted as rapidly as possible in all areas which report substantial blocks of land as "culturable waste" and steps should be taken to prepare suitable development projects.

Apart from the "cultivable waste lands," there is a considerable scope for developing eroded lands and carrying out anti-erosion measures for conservation of the soil. This work also requires (*a*) a survey to locate the blocks of land which can be saved for cultivation through suitable anti-erosion measures and (*b*) the formulation of combined projects for developing the lands with such measures as afforestation of the catchment areas or contour and terrace bunding on the lines attempted in some of the hill areas in the Punjab or field-bunding for conservation of moisture on the lines of work done in the Bombay Deccan.

13. A facile optimism is noticeable in recent discussions of the agricultural problem which lends support to the view that all that is necessary to raise food production is to organise an intensive distribution of manures and improved seeds and provide assured water supply. That these are the most important means of increasing production can hardly be disputed, but the question which deserves very careful consideration is whether the average agriculturist with his small farm, limited resources, scepticism about the use of manures, primitive technique and the inertia born of a century's neglect will in fact avail himself of these facilities, put them on the soil and increase production in all the 700,000 villages of India. Any careful examination of the problem brings out the conclusion, that if approached on an individual basis, not much can be hoped for by way of real and effective results. The problem of a rational and sound organization in the field of production is fundamental to real agricultural improvements. The hard realities of the social and economic life of the average cultivator have to be taken into account in discovering a proper "basic unit of production" and a suitable organization. The attachment of the small man to his field is almost pathetic. The existence of a multiplicity of intermediate interests between the actual tiller of the soil and the recipients of the net benefits or rent is well-known. The

crucial question, in this connection, is not who owns the land or who receives the rent but, how the given available limited resources in land in each village are organized for production. It is a satisfactory answer to the question how the resources are organized for production that will determine the rate of agricultural progress and improvement in agricultural efficiency. The main elements of a satisfactory and rational organization can be broadly indicated as follows :

(1) Whatever the position of land-owners or rentiers, the system of farming of small pieces of land by the individual cultivator on a family basis must give place to the farming of the entire available land in each village on a co-operative basis by the village community as a whole. In other words; the village must become the primary basic unit of production for "cropping purposes."

(2) The distribution of manures and seeds or even water must be arranged not on an individual basis but as bulk supplies on a collective basis for the entire village community.

(3) The actual tillers must be required to accept a prescribed cropping-schedule for the village area.

Keeping in view these elements, the aim must be to organize each village community into an association and to require the actual cultivators to farm the entire village area according to a prescribed cropping-schedule. The village association should serve as a multi-purpose credit-cum-marketing society. It should maintain a store for seeds and manures and also accommodation for storing grain pledged by the members who should be required to sell their grain surpluses only through the association. In fact, the association should be performing functions similar to those performed by the branches of the Credit Agricole in Egypt such as the advances of manure or seed loans or advances against the produce pledged by the members. Such a democratic association should be assisted by small nucleus expert staff provided by Government.

The Government should also give necessary financial assistance. It is realised that the reorganization of the village community life in all 700,000 villages of India on these lines will be an ambitious task and it should be attempted in the first instance in selected villages and then extended to other areas in the light of experience. It must be realized that there is no short-cut to rural prosperity and the rate of agricultural progress will, in the main, be determined by the success achieved in building up a sound village organization and a satisfactory basic unit of production. In this connection, the recent legislation for the establishment of *Goan Panchayats* adopted in the United Provinces deserves very careful study.

Side by side with the question of a sound village organization, the administrations will have to review and provide adequate planning machinery at the headquarters in the form of agricultural and land development commissions or boards with executive staff and similar machinery at the headquarters of the districts.

14. The lines of reform to be undertaken and the problems to be tackled are manifold. The available resources in men and materials are limited. This inevitably requires an order of priority both in regard to the measures to be taken up and the objectives to be tackled. This is not to minimize the importance of the economic measures referred to in the discussion relating to the factors governing the income of the agriculturist or such measures as the increased production of vegetables and fruits or the provision of field service for protecting crops from diseases and pests or storage pests.

Agricultural research is ultimately the foundation of all agricultural progress. While existing research has not only to be maintained but greatly expanded, the immediate need in India is to put on the fields of the actual cultivators the known results of past research on the widest possible scale in the shortest time and this must become the watchword of the policy for sometime to come.

15. In the field of animal husbandry one has also to face the problem of limited means in relation to alternate pressing objectives to be tackled and priorities are unavoidable. Intensive and extensive work, on a very large scale, has yet to be done to improve the breed of cattle, sheep, goats, and poultry and to provide adequate protection to them against diseases and veterinary treatment and aid. The highest priority should, however, be given to efforts to increase milk and fish supplies as rapidly as possible. The importance of milk in the diet of a vegetarian people does not require emphasis. The present supply of milk is woefully inadequate as compared to the nutritional requirements of the people. The poverty and the lack of purchasing power of the bulk of the population is also largely responsible for the low *per capita* consumption of milk. In the case of a perishable but highly valuable food like milk, the creation of an assured market at a reasonable price is the most important pre-requisite of an effort to increase production and supplies of wholesome pure milk. The expert view in the matter is, that keeping in view this basic condition, the problem of increasing milk supplies should be tackled in the following way : First, each administration should appoint a dairy development officer to carry out a rapid survey of the conditions of supply and distribution of milk in respect of all the important urban areas in the province or state. On the basis of this information, the authorities should organise the wholesale distributors in each town into a single distributive agency and link up such a distributive agency to a two-fold scheme of development, (*a*) a procurement scheme and (*b*) a civil dairy farm scheme. Under (*a*), the distributive agency should arrange to collect milk from the individual *gowalas* at focul points within a radius of 20 to 25 miles of each urban area, transport that milk quickly to a central dairy in the town, process the milk and arrange its distribution to the population on a zonal basis. The activities of the distributive agency should be supervized by a board consisting of representatives of the producers, the distributors and consumers and a number of representatives nominated by Government. The distributive agency should try to encourage the *gowalas* to organise themselves on a co-operative basis and to maintain their cattle under a common shed

and introduce stall feeding. As an inducement, the *gowalas* willing to take up the scheme should be supplied concentrates or fodder at subsidized rates in the initial period until the scheme makes sufficient headway. Under (*b*), the distributive agency should establish a dairy farm of its own in the same neighbourhood where pedigree cattle may be maintained and which should become a nucleus of better-feeding and better-breeding work and demonstration. The size of the dairy farm should be economically planned with a view to supplying a portion of the daily consumption requirements of the distributive agency. High prices is as much a cause of low consumption of milk as inadequate supplies. It should be appreciated that the cost of producing pure milk will be relatively high and, with a view to encouraging the consumptionof this highly nutritive food, the administrations should introduce special schemes of selling milk at concessional rates through the same distributive agency to the vulnerable sections of population such as women and children. Such an organized effort at increasing the milk supplies for the urban areas will have to be supplemented by intensive breeding work through the establishment of the Government breeding farms and through key villages and provision of adequate veterinary aid.

16. Fish constitutes an important article of diet of certain sections of population and is a very valuable supplementary in the diet of the people accustomed to take it. Intensive effort requires to be made to clean tanks, to distribute fingerligs and fry for stocking up all the tanks and ponds and to promote an organized marketing agency amongst the fishermen. The potentialities of increased fish production in the Bay of Bengal and the Arabian Sea round about the principal ports also need to be surveyed and followed up by the establishment of fish-curing yards, provision of launches with cold storages and provisions of ice and salt at concessional rates to the fishing parties and necessary arrangements to train the staff.

17. The importance of further research work in animal husbandry does not require special emphasis. Much work has yet to be done particularly in respect of animal nutrition studies combined with intensive development of the grass reserves and fodder supplies and also concentrates and their distribution.

18. An attempt has been made in this short article to set out the salient features of the agricultural problem in India and to indicate the major planks of the agricultural development policy designed to secure a rapid increase in the income and the living standard of the agriculturist and maximum production of agricultural crops at the minimum possible cost. The organizational aspect of development in the field of production, marketing and finance both for agriculture and animal husbandry is of pivotal importance to real and lasting development. The principal objective and the main measuring yard of progress must be increasing yields per acre of all the principal crops in relation to costs and the major attack must be directed to the creation of a sound organization so as to create an optimum basic unit of production in agriculture and animal husbandry consistent with the facts of the social and economic life of the people and also in the field of finance, marketing and distribution. The part that man-made rational organization has to play in the development of the full potentialities of agriculture and animal husbandry is not always clearly appreciated. It is more the quality and the scale of the human effort involved rather than the actual choice and soundness of particular measures that will determine the rate and the degree of progress. The dream of a fully rationalized agriculture and animal husbandry yielding the maximum net output and the highest possible real income in the interest of the individual producer and the community is an alluring one. But the temple of a prosperous rural India is based on an eminence and the path to it is a long laborious one requiring a tremendous

organizational effort and a sustained and vigorous drive for emancipating the producer from all the risks, natural, biological and economic, launched and maintained with the full co-operation of the people and the Government.

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STABILIZATION OF AGRICULTURAL PRICES

BY

M. L. DANTWALA

In 1945, the American Farm Economic Association conducted a contest for the best paper on the subject of "A Price Policy for Agriculture, consistent with Economic Progress that will promote adequate and more Stable Income from Farming." In all 317 papers were received. Several University Teachers and Administrators participated in the contest. Nearly a dozen top-ranking papers were published in the November 1945 issue of the Journal of Farm Economics. The papers provide an interesting insight into the current American thought on the question of farm prices. Though obviously written in the background of American conditions, certain dominant trends in the academic opinion on the subject are clearly visible. We, in India, are seriously considering the question of stabilization of agricultural prices and the experience as well as the knowledge of the trend in economic thought from America will be very valuable. A perusal of the prize-winning papers reveals a distinct emphasis on the following points :

1. Reliance on the general economic stability and a high level of employment for the maintenance of high level of agricultural prices.
2. A strong accent on free market mechanism.
3. Forward pricing and compensatory payment to farmers for maintaining their standard of living.
4. An enlightened storage policy.

It is pointed out that no one sector of economy can hope to benefit continually at the cost of the other. Some "correction" of natural disadvantages or economic inelasticities

may be legitimate, but, in the long run, economic prosperity is one and indivisible. Price and income stability is the basic problem of the whole economy. Attempts at solution must therefore be general in scope. At least we must see that solutions recommended for agricultural prices do not conflict with the general monetary fiscal policy. It is as much in the interest of the farmer as anyone else to see that employment is maintained at a high level. Yet the test of a price formula is in the depression. The depression, when it comes, affects every sector of economy and a scramble for stability by anyone must injure the rest. And experience hitherto shows that the boldest of price formulas will break down in the face of a persistent depression. What a price policy for agriculture can, at best, try to do is to remove the disabilities inherent in the agricultural economy.

American thinkers seem to lay the greatest emphasis on free price mechanism. Any interference with it, they fear, would seriously disturb the resource allocation function of the price mechanism. They are conscious of the fact that the failure of relative prices to reflect consumers' choices and impediments to mobility of resources from less to more remunerative uses, are the two major barriers to optimum resource allocation. But the contention is that an unwise price policy for agriculture instead of helping mobility may perpetuate an undesirable *status quo* or, what is worse, attract resources into basically inferior uses. Parity prices have the disadvantage that they stereotype conditions and patterns prevailing at some historical period and prevent the reflection of current consumers' choices and changed economic conditions. Anyway opinion seems to be fairly unanimous against transferring price decisions from the market to the secretariat. The dollar vote is considered more reliable than the political one.

But this faith in the theoretical efficacy of the dollar vote is weakened to a certain extent by actual experience. There is a genuine desire to see that the results of the free price mechanism are consistent with certain accepted social values. It is realised that a strict productivity distribution does not

always achieve the social aim. Hence the necessity of agricultural price policy as distinct from the general monetary fiscal policy. As mentioned before there are certain inherent characteristics of agricultural economy which are responsible for social disequilibrium and these may need correction. For example, it is well known that agricultural production is not fully sensitive to price fluctuations and that production is maintained even where prices are not sufficient to cover the costs. Secondly, when prices begin to fall, the fall in prices of agricultural commodities is much more precipitous. It is here that the price policy for agriculture has to make an appearance. It must interfere and yet cause the least disturbance in the free market mechanism. How can it do so?

The system recommended is that of forward pricing with compensatory payments whenever market prices fall below forward prices. In fixing forward prices care is taken to see that they do not result in an income so high that it will retain labour resources in agriculture not warranted by technological needs but which, at the same time, under no circumstances must be so low that they lower agricultural efficiency or lead to exploitation of tenants and agricultural labourers or cause transfer of lands into the hands of the money-lenders. Otherwise the prices must be such as would bring forth supplies commensurate with the consumption needs of the community (effective demand at full employment).

The essence of the plan is that prices are to be left free to seek a level at which they are able to clear the supplies. The prices would then reflect current consumers' choice and though compensatory payment would prevent the actual reallocation of resources, the Planning Authority will have a clear indication of the situation. The market prices will provide an excellent check on enthusiasm (induced by political considerations) as well as on the judgment of the Planning Authority. Large compensatory payments would be a signal for switching off resources to other uses.

As far as the farmers are concerned forward prices remove their fear of uncertainty and compensatory payments enable them to maintain their standard of living and efficiency of cultivation.

Another advantage of the system is that it saves the administration all the bother of storage and its allied problems. Government's buying is no solution to the problem of surpluses and as the Federal Farm Board realized to its cost, as an instrument for sustaining prices its efficacy is very limited.

From the point of view of administrative convenience the system of compensatory payments compares favourably with that of fixed prices and Government buying. In order that the fixed price may reach the actual producer, the Government may have to buy directly from the primary producer. In that case the whole burden of marketing the crop falls on their shoulder. For a country like India this will be a stupendous task. Compensatory payment has also its problems, but as will be seen from the following scheme, the administrative work involved in it is much less.

There is more than one method of implementing the scheme. Here is one advocated by Karl Brandt of the Stanford University. Brandt recommends a system of minimum farm income insurance. Production and price floors for the basic crops are first established. These will enable the Authorities to determine the "insured farm income." The second step is to derive the actual average income received from sales. This can be done by compelling all dealers in agricultural commodities to issue sale certificates to farmers from whom they buy any of the insured commodities. The sale certificates shall state the quality and the quantity of the product and the price at which it was sold. The authorities can calculate from the sale certificates the total income actually obtained by the farmers. If the income received is found to be below the "insured income," the authorities can determine the difference in per cent of insured income and pay all certificate holders an indemnity equal to that percentage on their actual receipts from sales. To discourage

any understatement about prices received it may be announced that the fixation of next year's "insured income" will be influenced by the actual receipts of the current year. It will thus be in the interest of the farmers not to understate their actual incomes from current crops.

It is evident that any scheme of compensation cannot hope to achieve perfect equity. For example, in the above scheme only regional averages and not the actual yield or price received by an individual farmer are taken into consideration. But if the object of such a step is just to correct only the major disturbances in the agrarian economy, this may not be considered a serious limitation.

We have noted that one of the reasons why it becomes necessary to adopt a special policy for stabilising agricultural prices is the uncertainty of production. Nature plays such an important role in agriculture that it is impossible to plan production with any certainty. Unstable production often leads to unstable prices. An intelligent storage policy may, therefore, indirectly help the stabilization of agricultural prices. Here it is necessary to distinguish between a storage policy which aims at production stability and the one which aims at maintaining prices at a particular level. It is pointed out most emphatically that the storage policy should scrupulously avoid an attempt to maintain or raise prices. Storage must be used by the State as a corrective to the vagaries of nature. Here, too, the American opinion is so keen on free market that Mr. William Nicholls, the winner of the first prize, suggests that the standard of storage policy should be based on the five year *moving* average of production, and only a specific percentage of the excess (or deficit) need be removed (or made good) by the State authorities. The latter device whilst checking the wide variations in the supply will allow the market to have its say both with regard to the price as well as the future course of resource allocation.

One thing which emerges clearly from the above discussion is that neither the extreme of free market nor that of

State trading finds favour with enlightened opinion on the question. Whilst it is realised that any deviation from free market will create problems, the solution of which will have to be, to say the least, arbitrary, any doctrinaire adherence to the market mechanism, because of various factors, will produce results which will be contrary to our sense of social justice. A compromise from any of the pure forms is, therefore, necessary. There are two ways of approaching the problem. You can either take the free market as the basis and apply correctives as and when necessary, or you start with total control and go on making adjustments dictated both by theory and practice. Opinions will differ as to the best way of arriving at the compromise. One may only remark that there is no particular merit in getting things done though Civil (or Economic) Service which can be done by impersonal forces in a sort of an automatic manner, provided of course that the automatic way does not go counter to our concept of social justice.

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LAND REFORMS

By

M. B. Desai

Of all the measures essential for rehabilitating Indian agriculture and for the rebirth of a prosperous peasantry, land reforms are perhaps of primary significance. Without this basic foundation all the efforts at reconstruction would either not bear fruits or produce results much below expectations. The meagre results achieved from the attempts made during the last two decades or so to encourage the farmers to use better seeds, more manures and improved agricultural implements and livestock so as to increase yields from land as well as to add to their income from better prices for their crops through the provision of efficient marketing service without tackling the basic evils associated with the title and occupation of agricultural lands bear ample testimony to the argument we have made above. Any plan intended for the reorientation of the rural areas, therefore, should devote attention first to the basic land problems from which most of the evils of agriculture spring. Measures to bring about technological advance in agriculture so as to render farming more efficient and increase yields from land and others more or less of a similar kind which would increase farmer's cash returns should, no doubt, be undertaken, but they alone will not carry us far unless all the energies are bent to alter radically the basis of land ownership and cultivation.

Let us briefly mention the various land problems of our country. The existence of a variety of land tenures is a great hurdle in the way of progressive agriculture. These tenures may be broadly grouped into three classes. Firstly, there is the permanent zamindari system mainly found in Bengal, Bihar, the U. P. and parts of Madras and covers roughly an area of 120 million acres of agricultural lands or 19 per cent of the total area of British India. In the United Provinces alone there are 13 lakhs of small and big zamindars possessing

35 million acres of land. Under this system the zamindar is the owner of agricultural lands and pays annual fixed revenue to the Government, but enjoys, at the same time, unrestricted right to collect rent from his tenant farmers who are the actual tillers of the land. With the passage of time a large number of intermediate interests came into existence between the zamindars and the tenant cultivators as a result of the zamindars delegating the work of collecting land revenue from the farmers to others for fixed payments. The rent collectors so created imitated the zamindars and created varying interests below them with the result that the chain of intermediaries between the Government and the tenant cultivators became long and intricate. An investigation revealed that in some of the zamindaris in Bihar parties between the zamindars and the peasants enjoying varying interests in rent collections number as many as thirty-six. Two main evils made their appearance out of this state of affairs. While the return to the Government by way of land revenue from the zamindaris remained fixed in perpetuity, the greed of the intervening interests knew no bounds and the tenants began to be rack-rented by many direct and indirect methods on the pain of being evicted any moment. The landlords live away from their estates in the cities and are not interested in farming. They do not sink capital in agricultural improvements. The cultivators, therefore, do not get back anything in return for the heavy payments they make to the zamindars. In the United Provinces, for example, the zamindars collect roughly Rs. 16 crores a year of which about Rs. 7 crores go to the Government as revenue and the rest to the zamindars. Of Rs. 9 crores that go to them barely Rs. 2 crores represent the cost of collection and the province does not get any return from the remaining Rs. 7 crores that go to the landlords' pockets. The decadent nature of agriculture arising out of uncertainty regarding the tenure of land and the numerous charges of the zamindars and superior holders can well be imagined. In the second place, there are the temporarily settled zamindaris like the *Malguzari*, *Maharwari*, *Khoti*, *Narvadari*, *Bhagdari*, *Inami*, *Taluqdari*, etc., to be found mostly in the C. P., the Punjab, Sind, and parts of the U. P., Bengal and Bombay. They cover about 30 per cent of the area

of British India. Taken together, the temporarily and permanently settled zamindari areas cover about 49 per cent of the agricultural lands in British India. Agriculture in temporarily settled areas suffers from all the drawbacks of the permanent zamindaris. Two features, however, distinguish them from the permanently settled areas. As under the raiyatwari settlement, lands under these tenures have been measured and assessed and the assessment on them is periodically revised. While under a few of them government demand varies with the increase or decrease in the assessment at the time of revisions, in the case of others, the periodical revisions affect the claims of the intermediate interests on their tenants, leaving the Government's share unaltered. Moreover, unlike the permanently settled zamindaris, in the case of most of these minor tenures only one interest exists between the Government and the tenants. The remaining 51 per cent of the agricultural lands or approximately 285 million acres are under the raiyatwari system which is found in Bombay, in most parts of Madras, in Berar, Sind, Assam and the Punjab. Under this system the cultivator is ordinarily the holder of the land as long as he meets the Government demand regularly. The Government fix the land revenue after carrying out survey operations. The assessment so fixed is revised at intervals varying from 20 to 40 years. On account of the many economic ills from which Indian agriculture suffers and as a result of the migration of the upper classes of agriculturists to urban areas after acquiring sufficient education in the quest of the soft jobs of the cities, an appreciably large area of lands even under the raiyatwari system is now cultivated by tenants. The extent of tenancy cultivation in the raiyatwari areas as a whole is not possible to estimate, but the writer's inquiry into Gujarat revealed that as much as 36 per cent of the cultivated lands covered by the investigation was held by tenant farmers. In the Dhandhuka and Viramgam talukas of Ahmedabad particularly, as much as 58 per cent and 44 per cent of the agricultural lands respectively are held by tenants. In the Punjab also only about 42 per cent of the cultivated area is worked by owners and the remaining 58 per cent is tilled by the tenants. In a few districts the situation has assumed alarming propor-

tions. In Multan, Jhang and Dera Ghazi Khan, for example, 74, 69 and 65 per cent of the lands under the plough respectively are cultivated by tenants. The extent of penetration of tenancy cultivation in most of the raiyatwari areas would be perhaps equally serious. Some of the estimates put down that as much as 75 per cent of the lands of the permanently and temporarily settled zamindaris and the raiyatwari regions taken together are cultivated by tenants. Cultivation by tenants in any shape is bound to be inefficient. The cultivator is not sure about the period for which he will be allowed to till the lands and hence his reluctance to effect land improvements. The other reason for the unwillingness of the tenant to produce more and produce better arises from the fact that the landlord would share in the higher yields without having contributed in any way towards earning them. Efforts have been made in the zamindari as well as raiyatwari regions to limit the demands on tenants and to make undesirable exactions illegal and also to ensure reasonable fixity of tenure of lands, but they have not improved the conditions of the cultivator materially.

The progressive increase in the numbers dependent on agriculture for livelihood from decade to decade and the insistence of all the heirs of a farmer aided by the Hindu and Mohammedan laws of inheritance to share equally each and every field of the ancestor gave rise to one more grave land problem of sub-division and fragmentation of agricultural holdings. The average agricultural holding in India comes to 4 to 5 acres composed of 7 to 8 fragments on an average scattered all over the village and sometimes beyond it. Considerable inconvenience is caused to the farmer and a good deal of his time, money and energy are wasted in cultivating such a small and fragmented holding.

From the above discussion the nature of the essential land reforms to make a proper start on the road to rural reconstruction would be clear. In respect of the permanent and temporary zamindaris the evils have taken such deep roots that measures to improve the conditions of the peasantry under them short of their abolition and establishment of a

direct link between the Government and the cultivators will be mere patch works. The large compensations that will have to be paid to the landlords would admittedly strain the provincial finances. This will require a great degree of tact on the part of those who handle provincial budgets to pilot the reform through without giving undue shock to the finances of the governments. The difficulty of obtaining money for the purpose appears to be somewhat exaggerated. It was revealed by the Floud Land Revenue Commission, Bengal, that the Bengal Government can liquidate the landlord estates by an expenditure of Rs. 78 to Rs. 137 crores spread over a period of 30 years which would amount to 2 to 3 per cent of the value of annual agricultural produce on the basis of prices in 1938-39, while the landlords usurp to themselves as much as 26 per cent of the annual agricultural produce through rents and other exactions. In such feudal parts of the country as Sind the average legal share of the landlord is seldom below 50 per cent of the produce of the land and the net income after paying all charges and expenses such as land revenue assessment is a quarter of the total agricultural income. Thus the compensation that will have to be paid to the landlords will only be a small proportion of what they collect now and still an insignificant fraction of the total annual agricultural produce. The process of cancelling the bonds that will be issued to the landlords can be hastened and the provincial finances relieved rapidly from the burden of the interest charges which these bonds will carry if instead of making all the benefits of the reform immediately available to the tenants, the relief is given progressively for some years in the beginning and during that period the surplus accruing to the provincial governments utilized in paying off the bonds and meeting the interest charges on them.

The need for abolishing tenancy in any shape or form in the raiyatwari areas is equally great. The tenant cultivators in these areas as well as in the zamindari tracts work under more or less similar handicaps and are subject to the same harassments. The deprivation of the rights of non-agriculturist landowners in the raiyatwari areas is not likely to present any very serious problem. Most of the non-cultivating owners

pursue alternative occupations which are the main sources of their income. Income from land in the shape of rent is only of minor consideration to them. In addition to these, there are the big agriculturist landholders who own lands in excess of their requirements and who hire out the additional acreage to petty cultivators. As they will be deprived of the ownership rights in lands which they do not want for cultivation personally, they also will not be economically adversely affected. The method to be adopted for compensating the landowners here will be the same as the one employed in respect of the zamindari areas.

Even after the intermediate interests in lands are eliminated and a direct link established between the farmers and the Government, a few important land problems will remain untackled and would offer themselves for solution. Reference has been made to the scattered nature of the fragments of land that constitute the cultivator's holding and the waste of time, money and energy of the farmers and the inconvenience caused to him in tilling them. To the extent there are varieties in soils, crops and agricultural practices holdings will have to be constituted of different blocks. But even within these limits considerable scope for consolidation exists, particularly in regard to dry crop lands which compose about 75 per cent. of the area of British India. Consolidation has been attempted through permissive legislation and voluntary co-operation mainly in the Punjab, the C. P., the U. P., the North-West Frontier and Baroda, but not much headway could be made with the work. Most of the post-war plans envisage consolidation of agriculturists' holdings, but point out that efforts in that connection should proceed along lines hitherto followed. The small results achieved through these methods indicate that unless a certain degree of compulsion is exercised the reform cannot be pushed ahead quickly. Side by side, the Hindu and Mohammedan laws of inheritance will have to be thoroughly overhauled so as to prevent further partitioning of the consolidated holdings and the evil raising its ugly head again.

We have referred to the average size of holding commanded by the Indian farmer. We also saw that over about 75 per cent of agricultural lands in British India essentially dry crops are raised, while on the remaining 25 per cent. of the area garden cultivation is important. About 20 to 25 acres of dry crop lands or about 3 to 4 acres of garden lands are the minimum necessary for a farmer to enable him to earn enough from his pursuit for the maintenance of himself and his family in reasonable comfort. Looked at from this standpoint, it may be roughly said that over 90 per cent. of the agriculturists' holdings in the country are uneconomic to cultivate. In view of the absence of alternative callings in the form of highly developed industries, it is not possible to displace a part of the population from land so that each one of those farmers who would remain on land thereafter might come in possession of an economic holding. The only alternative under the circumstances is to introduce co-operative farming by encouraging the farmers to combine their small holdings after they have been consolidated into giant co-operative farms and agree to put through all the agricultural operations from the beginning to the end jointly and thus reap the benefits of large scale farming. Little headway has been done with the introduction of co-operative farming in our country. The Government have not even carried out experiments in co-operative farming. By doing so they would have been able to demonstrate the benefits of joint cultivation and might have encouraged a large number of farmers to emulate their example. Introduction of co-operative farming has found a place in most of the post-war plans for rural rehabilitation, but as in the case of consolidation of holdings, most of them have relied unduly on the good sense of the farmers to come together voluntarily for the purpose. Experience of actual conditions and the completely disrupted nature of the village community life do not warrant such a belief. By retaining the title to agricultural lands in the zamindari areas for some time after the intermediate interests have been eliminated Government will be able to order about the farmers to consolidate their holdings and become members of co-operative farms. But some dose of compulsion will have to be administered directly or indirectly to rope in the

recalcitrant minority. A comparatively low level of land tax and other benefits like facilities for better marketing and improved seeds and agricultural implements and more manures at nominal cost to the consolidated holdings and co-operative farms would set in motion the necessary current.

In the light of the land reforms outlined above to set Indian agriculture to its feet, let us examine the recent land legislation and see how far it progresses towards the attainment of the ultimate objectives that have been set forth. The Governments of Bengal, Bihar and the United Provinces have accepted on principle that the zamindari system should be abolished and the legislatures will proceed shortly to enact necessary laws. The Government of Madras as well contemplate its abolition. The United Provinces Government have also fixed the compensation to be paid to the zamindars at six times the estimated annual income of the property. Elsewhere this limit has not yet been decided upon. Obviously enough, opposition to the measure has been from the vested interests. In the United Provinces, however, it has also come from the Muslim League at a time when the ministry of the same party in Bengal have put the abolition of zamindari as the first item of its programme. The argument set forth was that as a result of the measure an important source of income of the Muslim Wakfs will be dried up with the cessation of contributions to them from the Muslim zamindars. It is surprising that a reform of prime economic importance like this should be viewed from such a narrow angle. Madras, Bombay, the C. P., Sind and the Punjab are the important regions of the temporarily settled zamindaris which present essentially the same problems as the permanent settlement. The provincial governments concerned do not seem to be contemplating their abolition. Only the C. P. Government have decided to abolish the *Malguzari* tenure. In respect of the *Khoti* tenure in Bombay it is likely that a continued dereliction of duties on the part of the *Khots* may bring about their extinction in the long run as a result of the recent amendment (1946) of the Khoti Settlement Act, 1880 which lays down that the *Khoti* villages will lapse to the Government in the event of the co-sharers concerned failing to nominate a managing *Khot* for

two successive years. In regard to the raiyatwari areas also abolition of tenancy cultivation on the lines envisaged above is nowhere contemplated. In spite of the seriousness of tenancy problem the Government of the Punjab think even a comprehensive tenancy law unnecessary. Elsewhere the provincial governments concerned are content with enactments to protect the tenants against wrongful evictions and unauthorized exactions. The Bombay Tenancy Act, 1939, as amended in 1946, in the light of the experience of working in a few selected areas may be mentioned as an example of a piece of legislation which goes all out to protect the tenant farmer. The Government of Madras have also appointed a special officer to investigate the land tenure system in the raiyatwari areas in the province with special reference to conditions of tenancy like security of tenure, duration of tenancy and fairness of rent with a view to bringing in legislation for necessary reform. But all of them do not hit at the very root of the problem of tenancy cultivation. For bringing about consolidation of agriculturists' holdings and the widespread introduction of co-operative farming too legislation with an element of compulsion is not proposed in any of the provinces except Bombay where the Consolidation of Holdings Bill, 1946 will enable the Government to take the initiative where necessary and go ahead with the reform. It also provides for meeting effectively the unreasonable opposition of a section of the farmers.

From what has been discussed above it will be clear that except in certain respects land legislation that is already on the legislative anvil or is contemplated in the near future does not envisage any radical departure from the *status quo*. As has been said before unless a solid foundation is laid through land reforms on the lines indicated above, the super structure of rural reconstruction would remain basically weak and might threaten to break down under a slight strain. Now that the people's representatives are at the helm of affairs both at the centre and in the provinces, it is to be hoped that they will devote serious attention to these fundamental problems of our agricultural economy.

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LAND COLONIZATION

By

V. V. Sayanna

Introduction

Large areas of cultivable wasteland exist in India. According to the *Agricultural Statistics of India*, in the year 1938-39 out of the aggregate area of the country of about 512,664,000 acres (which excludes the total area of the Indian States) the total cultivated area is about 257,702,000 acres or 50·2% (of which about 209,400,000 acres or 81·2% is the net area sown and about 94,180,000 acres or 18·8% current fallows), while the total areas of uncultivated and "not available for cultivation" constitute about 91,811,000 acres or 18%, and the cultivable but uncultivated area about 104,047,000 acres or 20·3% of the total land space. This classification of areas is quite arbitrary. Until a thorough and scientific land survey is made as in the U.S.A. or in the U.S.S.R., it is evident that these statistics fail to give a precise estimate of the areas which are really fit for cultivation, although an approximate idea may be had from the figures about the state of things in general. Further, in the Agency tracts, considerable areas of fertile land lie in the districts like Godavari, Vizagapatam and Malabar in the Madras Province which have not been reclaimed so far because of the malarial mosquito. All possibilities have to be explored and every means to be devised therefore for economic utilisation of such resources.

Objectives of Colonization

There have been different motives at different times for the establishment of land settlements in different countries. Sometimes they constituted more or less a part of relief measures. In certain cases they were influenced by political considerations. Of late, in connection with discussions on

economic planning, the importance of full development and exploitation of the available land resources has assumed the significance of a big agricultural question. After the World War I and during the period of the great depression in countries like England, Germany and Italy where colonization schemes were undertaken, the prominent motives of the respective Governments were the settlement and rehabilitation of special classes of people like ex-servicemen and the industrial unemployed. The enlargement of the size of holdings to the family-size farms suitable for agricultural and horticultural production, increasing or at least retaining the rural population and checking the exodus from the countryside to the urban areas were also some of the things aimed at by colonization schemes. In the U.S.S.R., the Baltic States and some of the countries of Central Europe where Government agrarian programmes were largely influenced by socialist principles, in addition to political considerations, the object of meeting the land hunger, distribution of land among farm workers and the agrarian proletariat, etc. were unequivocally declared to be the aims. Colonization schemes which have been initiated by the various Provincial Governments in India, during World War II and after, strictly speaking comprise a part of the general "Grow More Food Campaign," though some of the schemes are for rehabilitation of ex-servicemen. In case of the well-known river valley projects such as the proposed Kosi or the Damodar river projects, flood control is the primary motive and area development or colonization is rather, so to say, a by-product of the major scheme. It is obvious that land colonization may take different forms and need not necessarily confine itself to a single object. Very often a combination of some of the above mentioned objectives may be kept in view while formulating colonization schemes. However, the most important principle pertinent to our analysis appears to be the task of putting all our land resources to the fullest and the best economic use for the maximum social advantage. It naturally involves the development of areas, which incidentally provide bread and work for a considerable number of people leading ultimately to the material regeneration and advancement of the regions concerned.

Principles of Colonization

In order to attain the goals set up, the following principles may be laid down for land colonisation schemes.

(a) *Ownership of land and system of land tenure* : It is an incontrovertible fact that colonies organised on co-operative principles *per se* have many advantages over land settlements of small individual holdings. In fact group or colony settlements is the only satisfactory form of developing land in an effective way. Moreover, a colony settlement financially works out at a proportionately less cost than the aggregate cost of settling the same number of small holders individually scattered over a large area. A few illustrations are given below :

The Kvutza[1] colonization movement in Palestine is governed by two cardinal principles. Firstly, that the land acquired by the Jewish organisation has to remain for ever national property and never to become the private property of individuals ; and secondly, no hired labour shall be employed in farming the land. Individuals settling on land received only lease holds. Those who held it or tilled it could not sell it, bequeath it, nor make a gift of it. Land was made not only national property, but anyone acquiring it had to serve higher purposes than that of personal interest. The acreage allotted to each settler was limited to the area which he and his family could till without outside help.[2]

The Madras Government's plan for the resettlement of demobilised soldiers envisaged land colonization on co-operative lines. The land, made cultivable at the Government expense, will be handed over by the Government to the legal ownership of a co-operative society for which the landless ex-servicemen alone are eligible for membership. On

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1 "Kvutza" is a the Hebrew word meaning group. That is, everything is to belong to the group ; that is to every one and nothing exclusively to any individual.

2 See *Co-operative Living in Palestine* by H. P. Infield. London, 1946. Ch. 1, p. 12.

duly becoming a member of the society, each colonist shall have the legal status of a permanent occupancy ryot, in so far as he is free to cultivate whatever he likes and reap the benefit of all the profits accruing from his holding. But a colonist will have no right to sublet, mortgage or otherwise encumber his holding, which will be also impartible and will, on his death, pass undivided to his nominee or senior male heir.[3] The chief aim of these stipulations is obviously to prevent evils of alienation and fragmentation of holdings.

Thus unless the elimination of exclusive rights of private property in land and provision against impartibility, inalienability and subletting are secured, the colonization scheme will only add to the complications of the already existing evils of small individual holdings. When a colonist is found unable through old age or other handicaps to work his holding, he may be permitted to apply to the colonization authorities concerned to assign his right of enjoyment of the holding to any member of his family or to any person, in the absence of nearer heirs to succeed him in case of intestacy. In the event of his quitting the colony itself, his respective rights must revert back to the whole group or the co-operative society and suitable rates of compensation may be paid on such permanent improvemens made out of funds other than the incomes derived from farming on the holding during the period of his membership in the colony.

(b) *Size of Holdings* :—The question of the economic size of the holding inevitably leads to the consideration of a variety of factors such as fertility and suitability of land, type of farming adopted, nature of crops raised, capital resources or credit facilities available to the farmer, other local conditions and above all the number of colonists and extent of land available for allotment. The trends of increased application of machinery and technical developments in agriculture, rise in wages and the general craving for a higher standard of living decidedly favour enlargement of the size of holdings. Nevertheless, the minimum size of a holding must be at least

3 Vide Swords into Ploughshares, being the Madras Government's Plan for the Resettlement of demobilised soldiers, Madras, 1945, pp. 17-19.

the size of a family-holding. It must be adequate to absorb the whole time of the holder and his family and capable of yielding, on effective operation, an income not less than the standard wages of a farm-worker for the number of days worked by the farmer and the members of his family, together with a reasonable return to provide for the services of capital and other heavy investments made in farming of land after meeting all other expenses of cultivation. It may be noted that in the final analysis the size of the holding assumes significance in relation to the types of farming adopted.

(c) *Types of Farming.*—It is necessary at this stage to have an idea of the types of cultivation[1] and the degree of co-operative action to be practised in the colony in the chief operations of the settlers. There are many possible alternatives,[2] although their application is again conditioned by the nature of land, temperament and education of colonists and other factors. In the first place, allowing the colonists to work on their individual units freely, carrying on operations on the fields according to their own lights, resources and abilities without proper co-ordination or control is *a priori* ruled out. The second alternative is to allow the colonists to carry on individual farming on their units under a sort of general control in the matter of crops raised and the maintenance of land in good condition, so that the interests of the whole settlement may not be hampered, practising co-operative action only in matters of credit, marketing of produce and purchase of requirements for the farm and family. But the desired aim must be to introduce gradually the system of comprehensive co-operation in farming, marketing, consumption and even in the mode of living of the colonists, so that in course of time these settlements may develop into veritable co-operative villages. There is some truth in the saying that a visual demonstration, particularly in matters of this kind, is far better than hours of lecturing. In so far as the actual process of farming is concerned, it is desirable that the

1 See Para 4 of G. O. No. 5024 dated 21st Dec. 1945, Govt. of Madras, Development Dept. regarding Wynaad colonization Scheme (approved).

2 *Report of the Co-operative Planning Committee*, Bombay, 1946, Ch. III, pp. 26-33 for a detailed discussion of the various types of farming.

principle of "voluntary action" as decided by the colonists themselves had to be maintained to a great extent. It is claimed that the success and vitality of the collectivisation movement in the Soviet Union has been largely due to this purely voluntary basis.[1]

(d) *Selection of Holders.*—The foremost consideration in the selection of colonists should be, above all things, the ability and resourcefulness of a person to be a good farmer. Persons who have a farm upbringing or at least a country background may make good farmers with the necessary training. Married persons may be preferred to the single man or woman, since the family of a farmer has a stabilising influence in farming as well as in colonization. Instead of selecting colonists exclusively from one section such as ex-servicemen, preference must be shown to the most suitable men in the national interest. The Committee on Scottish Land Settlement have rightly observed[2] that where an applicant is trained in agriculture and interested in land, there is every prospect of his success, but the wholesale placing of unqualified persons on land, simply because they belong to a particular community can only lead to frustration. Statistics show that failure among holders settled after World War I were noticed chiefly among ex-servicemen, because a good number of them were hurriedly trained in agriculture with the result that they could not face the heavy fall in agricultural prices which followed, before they were properly established.

(e) *Extent of State Aid and Control.*—Land colonization must be the concern of the State, as it cannot be effectively undertaken by the efforts of private individuals with their limited resources, and State assistance is needed in many ways at different stages of colonization. State help is needed in location of sites for the colonies, acquisition, clearance and reclamation of land, provision of credit facilities, health and hygiene of colonists, services of expert personnel, facilities of transport, education and generally for the rapid

1 cf. *What are Collective Farms?* by Dr. V. A. Kaprinski, London, 1944.
2 *Report on Land Settlement in Scotland* by Department of Agriculture for Scotland, Edinburgh, 1944, Section I, p. 20.

growth and welfare of the colony. In view of the special importance of the question, the Provincial Governments in alliance with the Central Government may make the following concessions :—

(i) Government may assign the whole land free to the colony, or alternatively, recover from the colony only the sums payable to acquire the properties of private individuals for formation of the colony bearing on its own part a portion of such amounts of compensation.

(ii) Government may incur at least half the cost of reclamation and the entire cost of land clearance, etc. in the first stage of operations.

(iii) Government may give grants and provide funds through co-operative societies and may bear the interest charges fully or partly on loans advanced by the co-operative societies for the first five years.

(iv) Government may not collect any land revenue for the first three years and do so at concessional rates during the next two years of the working of the colony.

Logically the State has also the responsibility of making provision for free auditing, technical advice while entrusting the work of management of internal affairs to the colonists themselves and giving them guidance and encouragement from outside.

Some Practical Considerations

In the first place there are some obstacles to be overcome which stand in the way of colonization. They are, in the main, the nature of soil and climate, existence of malaria and allied diseases, and lack or excess of water. Where there is excess of water, the areas will have to be drained.[1] On the other hand, where there is lack of water, irrigational facilities will have to be provided to turn deserts into cultivated

1 cf. *Land Reclamation in Italy* by Langobardi, London, 1936, Ch. V-VII.

fields. However, we restrict our attention chiefly in examining problems connected with the first set of areas. In the matter of both reclamation and clearance work, it is essential that the first set of operations should be carried out by the Government till the land is made fit for detailed clearing, levelling, bunding, etc. to be carried on by the colonists themselves to effect agricultural operations. In the initial work of preparing the land, up-to-date mechanical appliances including tractors and bulldozers should be freely used.

Secondly, there are many questions relating to health and sanitation of the colony. It is said that there are few regions which are free from diseases like malaria.[1] and blackwater fever which are a formidable foe to the development and settlement of large areas of fertile lands in the hilly tracts. As a matter of fact, many settlers, decimated by these malignant ailments, abandoned their holdings in the past. Of equal importance is the timely and adequate provision of proper conditions of housing, sanitation and medical help for the settlers and the livestock.

To meet these requirements the cost of settlement must be necessarily huge. It has to be made clear at this stage that wholesale and indiscriminate land clearance or reclamation without due consideration of costs is not advocated. As an economic proposition, lands newly brought under colonization must have to provide in the long run a reasonable revenue for the expenses and capital outlay involved in the schemes to the Government. It may be pointed out, however, that such huge operations were carried out by Governments of some countries often at a financial loss from the social point of view.

Land colonisation schemes may be financed in various ways. Financial requirements to carry out the chief operations may be found in either or both of the following ways, viz. through special funds or free grants given to the coloniza-

1 Details of procedure and execution of anti-malarial operations and malarial control are given in G. O. No. 5024 dated 21-12-45, p. 2, para 4 and G. O. No. 3373 of 3-8-44, p. 3, Para III of the Government of Madras, Development Department.

tion authority by Government and local bodies like the District Boards ; and secondly, through loans contracted from co-operative societies and from private agencies to be recovered from the colonists (i.e. the co-operative society of the settlers) in annual instalments spread over a long period of years. Some money can be realized in the process of colonisation itself by sale of surplus wood, bamboos, manufacture of charcoal, etc.

The above operations may be carried out to start with on an experimental nucleus colony, which in course of time may expand and fit into the larger scheme. The practical implications of acquisition of land, preparing land and initiation of the colonists have some interesting features. The area covered by the Scheme may be divided into convenient blocks. There may be some persons whose lands have to be acquired by the State in forming the colony. Expropriation with or without compensation of such persons who have already gone and settled on the area does not appear fair. In order to avoid the difficulties of shifting them from places where they have settled to new positions, it is desirable if they are allowed to remain as far as practicable within the same blocks in which they were originally situated, provided that they are prepared to throw their lot with the colonists and that their continued existence does not hamper the smooth running of the colony. The available cooly work at various stages of colonization may be preferably given to the families of the colonists and to the native labour of the neighbouring villages, if they are willing to accept it. Every necessary step should be taken to make the colony attractive and worth living, since if one such colony is formed and functions well, it will surely render the task of establishing other colonies easy.

Loans of considerable amounts in the initial stage as well as advances to carry on agricultural operations including amounts required for domestic expenditure till a return is obtained from farming are essential, and they may be made available to the colonists through the co-operative agency.

If the Government undertakes construction of houses also for the colonists which appears desirable, it is certain that the task of the Government will be rendered more difficult. Therefore the matter of construction of private buildings may be left to the colonists themselves. At the same time the Government may render all possible help in other ways as for example, by advancing loans through the Co-operative Agencies, preferably in the shape of building materials supplied at concessional rates, facilities of transport, supply of skilled labour, etc.

To maintain administrative efficiency, all the chief activities, technical, financial and administrative, should be co-ordinated in one supreme body. In the earlier years, a relatively low standard of living is unavoidable, but when once a new spirit, a belief in the success of the colony, is created, even the difficulties consequent on a low standard of living will be overcome and a higher standard serve as a spur to more fruitful action. The role of the "human element" is very important to make the venture a success. Mutual help encourages mutual confidence and at any rate a sense of association must take the place of the former sense of isolation as soon as a person becomes a member of the colony. Since a colony is also a social structure based on a definitely ordered pattern of human relationships, there must be the sustaining forces inherent among the colonists to avoid frictions, of which "self discipline" and "devotion to work" would rather head the list.

Colonization Schemes in the Madras Province

The Madras Government is one of the pioneer provinces in the matter of land colonization. The schemes of land colonization for the landless poor were first mooted in the year 1941 (G. O. No. 681 Revenue dated 20-3-41) and by the end of the year 1946 about 23 schemes were functioning. These colonization societies, after they were started by the Revenue Department were finally transferred to the administrative control of the Co-operative Department in July 1945. Out

of these Schemes, the Wyanaad colonization (Malabar) and the Araku Valley Scheme (Vizagapatam) in the Agency Tracts are big schemes meant to benefit partly ex-servicemen and partly civilians.

The statement[1] below shows the names of the schemes, their location and the extent involved, of the colonization schemes approved by the Madras Government exclusively for the resettlement of landless demobilised soldiers having a good record in war service.

A detailed examination of the financial implications, the progress of work and the results achieved by these schemes is not possible here. Moreover, as no considerable progress has been made with these schemes, it would be rather too early and premature to appraise the results and principal effects of the experiments and to pass a verdict on their success or otherwise.

CONCLUSION

Although broadly speaking many of the problems pertaining to land colonization are more or less common to the whole country, there may be a few others which arise from natural causes suchas geographical position, soil characteristics, climatic influences and local conditions in the various regions which must be fully taken into account in enunciating colonization policies and their execution. As long as agriculture remains the basis or the essential part of our economy, the fullest use should be made of the land, and no system should be favoured or tolerated which leads to wastage or uneconomic use of the land resources of the country. Our study of land colonization, considered from this viewpoint, is hoped to be useful, since it points to the direction in which a new society or a new civilisation is built up.

1 *Note* :—Out of 41 sites originally selected, 23 schemes are approved out of which 12 were functioning by the end of the year 1946.

LIST OF APPROVED SCHEMES

	District	Village	Extent	Remarks.
1.	West Godavari	Kalavapudi	2000·00	Functioning
2.	East ,,	Kandikuppa	421·85	,,
3.	,, ,,	Kemaragiripatnam	657·75	,,
4.	Kistna	Bhavadeverapalli	1106·00	,,
5.	,,	Kalidindi	1704·88	,,
6.	Chingleput	Meyyur-Gudepakkam	830·00	,,
7.	Tanjore	Tirumangalakotai	1500·00	,,
8.	Trichinopoly	Naidalur	300·00	,,
9.	Anantapur	Siddaramapuram	1030·00	,,
10.	North Arcot	Enadavadi and Sennaleri	3200·00	,,
11.	Coimbatore	Sinnakkalpalayam	200·00	,,
12.	Kurnool	Rudravaram	473·38	Non-functioning
13.	Cuddapah	Pullampet	416·94	,,
14.	Salem	Manivilandan	2800·00	,,
15.	Malabar	Pariyaram	1675·69	,,
16.	Anantapur	Bukkarayasamudram	1430·00	,,
17.	Tinnevelly	Gangaikondan	700·00	,,
18.	Kurnool	Racherla and Thimmapuram	350·00	,,
19.	Coimbatore	D. M. Samudram	800·00	,,
20.	,,	Ganapathy	280·00	,,
21.	Kistna	Etimoga	784·28	,,
22.	E. Godavari	Antervedi	1243·30	,,
23.	Chingleput	Nandambakkam	75·45	Functioning

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III—INDUSTRIES

INDUSTRIAL MANAGEMENT

By

G. L. Mehta

"The tradition and the climate of the skill of management, however, are remote from all negation. Management is affirmative and initiatory: 'This is to be done.' It is in the process of defining with skill and sense, what is to be done, and with it the *fixing of responsibility* for results, with wide freedom for judgment in the managers as to how it may best be done, that you have the essence of the best modern management."—David E. Lilienthal (*T.V.A.—Democracy on the March*).

Bernard Shaw has remarked that we seem to know the "XYZ" of everything but the "ABC" of nothing. This is too true in our country also. We are quite modern and up-to-date in our doctrines and dogmas and theories, but we flounder when it comes to practice. The borderline between authority and autocracy or discipline and docility still seems to elude us. We lack the rudiments of organizational capacity and are far from having mastered the technique of building up and managing institutions. Our industrial organization, for example, is, with certain notable exceptions, still largely in a medieval state and we adopt and follow methods which are individualistic and haphazard. It is true that in many cases our industrial enterprise has been successful in the sense of making money and several industries have done pioneering despite serious handicaps, internal and external. Industrial organization in this country has had to be built up in the initial stages without governmental support or sympathy and in the absence of adequate capital resources, technical skill and a literate labour population. To state that our industries could and should be organized on a more scientific and modern basis is not to deny recognition to the undoubted efforts and achievements of Indian industry.

The fact remains that today one of the central problems of industrial development, namely, organization and management of industries, does not receive the attention it

deserves in our country. While those connected with industry almost invariably demand "protection" whenever the industry is in difficulties, the sovereign cure offered by those who modestly consider themselves to be "progressives" is simply "nationalization." No doubt, both these methods might be desirable and, indeed, essential under a certain set of circumstances. That is mainly a question to be determined after careful examination and scrutiny into the conditions of the industry and the lines of its development. Neither "blanket" protection nor mere nationalization can, however, ensure efficient and economic working of an industry. The customer and the consumer are concerned with obtaining products of good quality at reasonable prices ; they may be prepared for a short time to undergo sacrifices and bear burdens for ensuring the development of an industry within the country. But unless international factors come into operation, the public is entitled to see that its sacrifices bear fruit and that through business administration which keeps abreast of the times and avoids waste and leakage and husbands available resources, industry on its part fulfils its obligations to the consumer, the taxpayer and labour. Nationalization, after all, is also a means to an end and as the experience of Soviet Russia and recently of industries like coal-mining and transport and power in Britain shows, nationalized industries have to face equally acute problems of internal organization and management and of discovering and stimulating incentives to work and to progress.

Industrial management is, indeed, both a science and an art. Undoubtedly, in the sphere of industrial organization and management, much can be learnt only from experience. You learn only by doing the task. As a vernacular saying has it, the best teacher of work is work itself. The problems that confront one in his day-to-day work are, when they are important, novel and fresh ; no two cases are exactly alike. Even what are matters of policy and what are details is a question which requires discretion and experience and can be determined on the basis of the conditions of the industry concerned. There is, therefore, no rule of the thumb that can be applied or a set of formulae which can avail. What is a

matter of routine is largely a matter of mechanization—mechanization through machines or by hand. But there is a body of knowledge comprising broad principles of industrial organization and management which could be taught and learnt so as to facilitate the process of training. This body of knowledge should be made available not only in Colleges and Schools of Commerce but in all branches of higher technological education. During the last two or three decades, the organization of industry has grown in complexity and its ramifications have extended in several directions. This growth has naturally resulted in a diversification of functions and has produced a demand for proficiency in many new fields. Even those who are largely concerned with technical questions have to familiarize themselves with several administrative and organizational questions. That is why even in many high grade technical institutions like the Massachusetts Institute of Technology, for example, it has been considered necessary for engineering graduates to study several business subjects such as accounting, banking, finance, labour relations, law, marketing, production and statistics. The principal aim of such courses in business and engineering administration is to bridge the gap between the executive and the technician, between the administrative office and the laboratory. The place of the technician and the managerial executive is, in fact, yet to be recognized in the world of Indian industry. Those who have studied Indian industrial organization have noted that there is a gap between the "top men" and the lower rungs of management in many factories and plants. In a large-scale organization not only are people wanted to formulate policies and give orders but also an intermediate category of persons who would seek to translate such policies in terms of concrete measures and who would try and see that those policies are implemented in practice. For all these reasons, a cadre of men is required trained at least in the rudiments of such subjects as scientific management, industrial psychology, costing systems and methods of wage-payments. Men in such positions must have grasp of fundamental principles, application, initiative and judgment. But they must also have adequate knowledge of other industries and allied trades, of finance and markets and, above all, of general economic

and social background. Such knowledge would enable them to be far better equipped for administrative work.

Here, again, we reach the borderline between science and art. The day-to-day operation of industry and business projects requires administrative talents of a high order. The executive or the technician must know how to work with and through other people. He will have to plan and organise and execute ; and he will have to manage not only dead things like machines and raw materials but also very live persons in the form of other officers, clerical staff, labour, customers and officials of Government. It has been well said that the higher a man rises in any profession, the more he will have to deal with social rather than purely technical problems. Questions of labour relations, of business and finance, of competition and monopoly, of controls and government intervention and many others will confront him. To deal with them, he must have not only sound technical and liberal education but also the quality of general adaptability. In answer to a survey, the engineering graduates of the M. I. T. emphasised the extreme variety of their work and stated that they found their activities less technical and routine than they had anticipated but more interesting, time-consuming and complex. They particularly stressed the value of their training in development of personal qualities and skill in human relations and dealing with problems of management and administration.

Both the technical and commercial lines of development demand, therefore, the training of managerial ability. On the one hand, problems of industry and commerce are becoming technical problems demanding specialization and with a mental discipline of their own. On the other hand, the social implications of industry require men with a capacity to deal constructively and effectively with people in a spirit of co-operative endeavour. Engineering and practical science have come to the aid of business in designing of plant, in control of production, in sales organization, in market research, finance, statistics and a host of other problems involved in the process of running a plant and marketing its product.

It is now common experience that at the head of such great concerns with world-wide ramifications as the du Pont's and Imperial Chemicals are scientists and technicians—a pointer to the fact that finance will increasingly become the instrument of industrial development while rapid technological changes and advance will determine the structure of industrial organization. We cannot have hereditary industrialists and entrepreneurs any more than we can have hereditary poets or philosophers or even politicians. In a memorable phrase coined many years ago, Mr. Manu Subedar referred to the "third generation incompetency" of those who seek to build industries in our country as a kind of personal possession and family ownership. If our industrial organization, however, is to become more modern and scientific, it will have to become impersonal in its structure and outlook and while retaining initiative and enterprise, will have to become flexible in its operation and conscious of its social responsibilities.

In all important industrial countries special attention is, therefore, paid to study and solve the problems of management. In Britain, a committee was appointed last year to formulate proposals for establishing a central institute for all questions of management in industry and commerce and it suggested a frame-work of the structure of a British Institute of Management. Broadly speaking, such an Institute would aim at raising the standard of management in the country, training up a continuous supply of managers and stimulating interest in effective management of industrial and commercial undertakings. It would be a centre for research and study and a central bureau for dissiminating information relating to management. It would advise on training and educational schemes and carry on a publicity campaign to emphasise efficient management practices. It would assist the existing management bodies and co-ordinate their activities through affiliation. The Institute will receive financial aid from the Government during the first five years but thereafter it expects to be self-supporting. It might be added that in the Report of the Higher Technical Education Committee appointed by the Ministry of Education in 1944 under the Chairmanship of Lord Percy, considerable stress was laid on the question

of training in Management Studies. The Committee recommended that all students of technology whether at the universities or colleges of technology should be introduced to the subjects of business management during their under-graduate courses or in the final year. They also recommended that at least one institution should be selected as a centre for post-graduate study of industrial administration. Such subjects should, no doubt, be taught by those who have a thorough practical and theoretical grasp of it and for this purpose industry should be prepared to release its senior men to give advanced courses of lectures. Some technological subjects are best taught by practising specialists. It should be the function of such a centre to set standards in the teaching of the subjects, to systematize it as a mental discipline, to conduct necessary research, to develop literature on the subject and to train teachers of it. Management Studies should, according to the Percy Committee, also form a part of all technical colleges teaching for national certificates and diplomas and should form the subject of short or refresher courses. It is essential that similar facilities for training managers and executives and for continuous study of management problems should be created in this country. Neither capital nor Governmental aid nor even Governmental ownership and control can, *by themselves*, lead to industrial progress unless we begin to pay adequate and constant attention to maintaining and improving the standards of business administration.

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INDUSTRIAL PROFITS: MEASUREMENT OF TRENDS

By

M. C. Munshi

Profits Index : An Indicator of Business Activity

(1) The importance of a reliable index of business profits as an indicator of business activity has long been recognized.

(2) The leading countries of the world today publish their well-known profit indices at regular intervals. In our country, since 1936-37, the Economic Adviser's Office have been publishing a profits index to which we shall make a more detailed reference presently. It was expected that unofficial agencies more especially the financial journals would be able to fill these lacunae in the indicators of business activity in India. The *Capital* (Calcutta) since March 1938 began publishing its index of business activity comprising of (i) industrial production, (ii) mineral production, (iii) index of internal trade, (iv) financial statistics, (v) indices of the value of exports and imports and (vi) indices of shipping activities with 1935 as the base. But for obvious reasons, these expectations of unofficial agencies compiling such indices, remained unfulfilled though several detailed attempts have been made to study the trend of profits by an analysis of dividends declared by joint stock companies over a series of years, particularly since the out-break of the war.*

(3) More detailed and significant analyses than those made by stock-brokers and insurance companies in respect of either an industry as a whole or of an industrial unit are rendered possible as a result of regular data published by the statistical organizations of all advanced countries.

* The two articles contributed by Prof. P. C. Jain in the annual number of the Capital, of 1942 and 1944 and an elaborate industrywise study conducted by Dr. M. H. Gopal and published in the Mysore University Journal, 1943, are instances of such efforts.

Trends of Industrial Profits in India

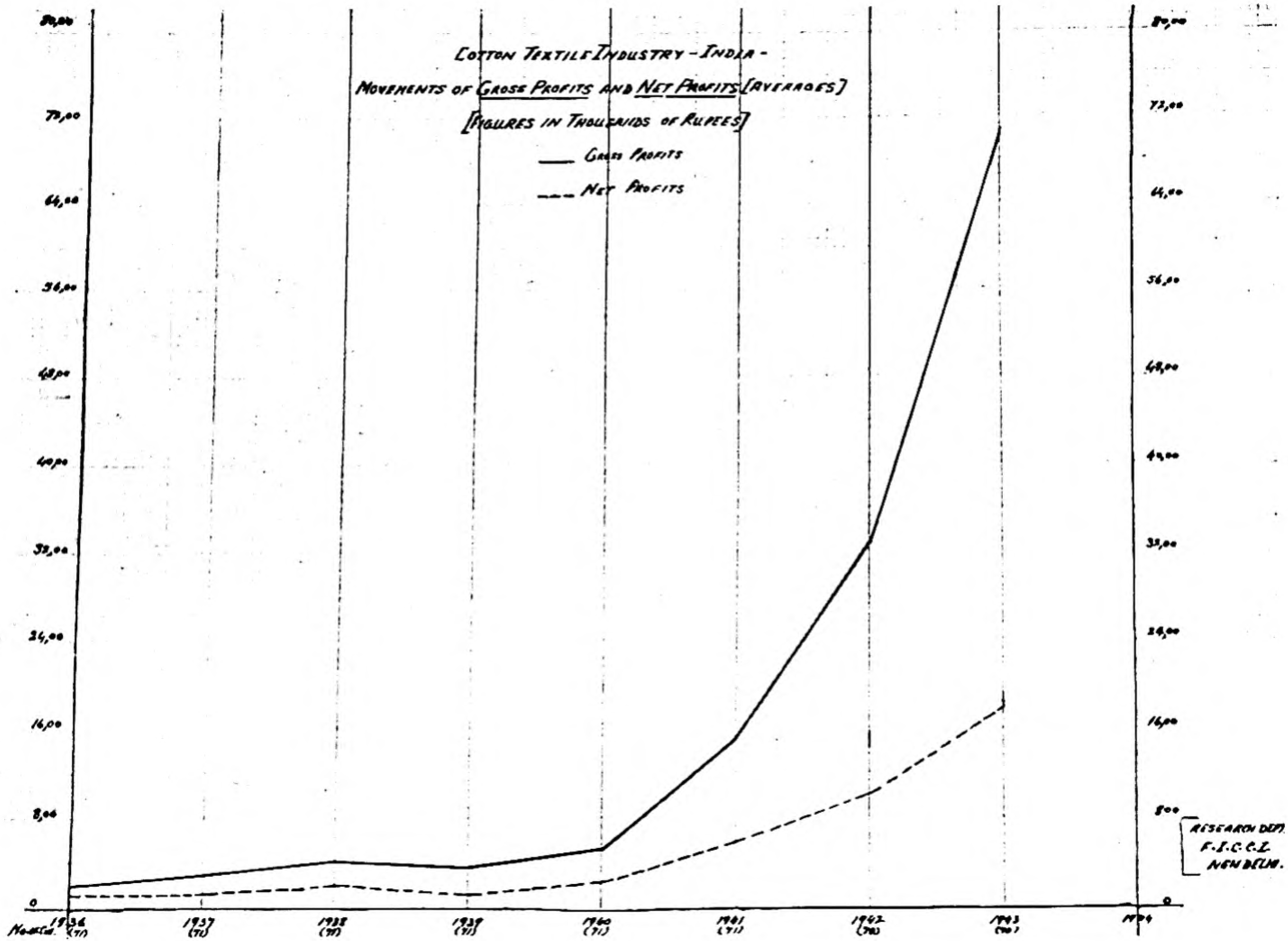
It is not necessary for our purpose to examine at length the results of these enquiries or even to dilate on the trends of these profits during the different periods as we propose to confine ourselves very largely to the methodological aspect of the problem here. In order, however, to be able to see the results of these efforts, we take an exceedingly interesting period—the war period—and summarise the results in the form of the following two tables, so that the indices in the two can be conveniently compared.

	Year	No. of Companies	Profits (Rs. 000)	Chain Index Base[1] 1928=100
Cotton Mill Industry	1938	57	2,48,53	208·3
	1939	61	1,98,64	154·6
	1940	6	2,86,95	220·1
	1941	60	6,81,35	489·1
	1942	75	11,09,78	760·7
Jute Mill Industry	1938	59	84,14	9·8
	1939	60	1,15,95	13·6
	1940	60	4,16,48	48·8
	1941	61	3,98,68	46·8
	1942	61	4,22,84	49·2
Tea Industry	1938	127	78,79	73·9
	1939	127	1,02,56	96·2
	1940	127	1,00,86	95·4
	1941	127	1,49,41	141·3
	1942	128	2,33,06	219·5
Coal Industry	1938	54	1,22,77	142·4
	1939	55	1,19,00	139·1
	1940	55	1,19,93	140·2
	1941	55	98,29	114·9
	1942	53	94,00	110·3
Iron & Steel Industry	1938	3	4,67,03	316·7
	1939	4	4,28,04	289·3
	1940	4	4,44,90	300·7
	1941	4	5,73,10	387·3
	1942	3	5,91,68	403·3
Sugar Industry	1938	25	70,76	157·7
	1939	26	81,01	179·4
	1940	27	84,37	180·0
	1941	28	1,19,78	247·3
	1942	28	1,06,46	219·8
Paper Industry	1938	4	34,45	172·1
	1939	4	30,39	151·8
	1940	8	71,72	358·7
	1941	8	86,41	432·2
	1942	8	97,64	488·4

[1] Compiled from figures published in the *Review of the Trade of India*, 1942-43.

	Average net profits per concern (Rs. 000)	Index number of average net profits (Base 1939=100)	Proportion of net profits utilized for dividends	Index No. of Reserve Funds (1935=100)[1]
Engineering Industry				
1939	42,81	100	70·2	355
1940	57,28	115	38·0	358
1941	76,81	180	32·5	490
1942	15,47	136	29·0	510
1943	96,37	225	32·1	488
Banks				
1939	..	..	..	155
1940	12,39	..	76·5	170
1941	24,20	..	77·0	166
1942	23, 39	..	75·2	174
1943	..	..	..	174
Sugar Industry				
1939	4,30	100	29·0	126
1940 ..	6,16	143	23·0	156
1941	5,23	122	23·7	163
1942	6,88	160	34·0	177
1943	9,39	218	32·0	174
Tea Industry				
1939	73	100	85·5	
1940	86	118	63·0	
1941	156	214	48·5	
1942	184	252	55·0	
1943	286	392	46·3	

	Average net profits per concern (Rs. 000)	Index number of average net profits (Base 1939=100)	Proportion of net profits utilized for dividends	Index No. of Reserve Funds (1935=100)[1]
Cotton Mill Industry				
1939	6,08	100	37·0	190
1940	4,43	73	52·7	199
1941	12,49	205	30·4	177
1942	19,04	313	16·1	227
1943	39,21	646	11·9	241
Coal Industry				
1939	1,85	100	44·6	132
1940	1,67	88	37·9	110
1941	1,98	107	47·1	123
1942	1,77	95	33·0	126
1943	2,30	124	21·4	111
Jute Industry				
1939	1,08	100	113·0	137
1940	6,43	590	32·4	160
1941	6,67	617	31·3	207
1942	9,68	896	22·3	210
1943	10,02	926	17·6	213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MOVEMENTS OF GROSS PROFITS AND NET PROFITS [AVERAGES]
[FIGURES IN THOUSANDS OF RUPEES]
GROSS PROFITS
NET PROFITS
80,00
72,00
64,00
56,00
48,00
40,00
32,00
24,00
16,00
8,00
0
1936 (71)
1937 (71)
1938 (71)
1939 (71)
1940 (71)
1941 (71)
1942 (70)
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1944
RESEARCH DEPT.
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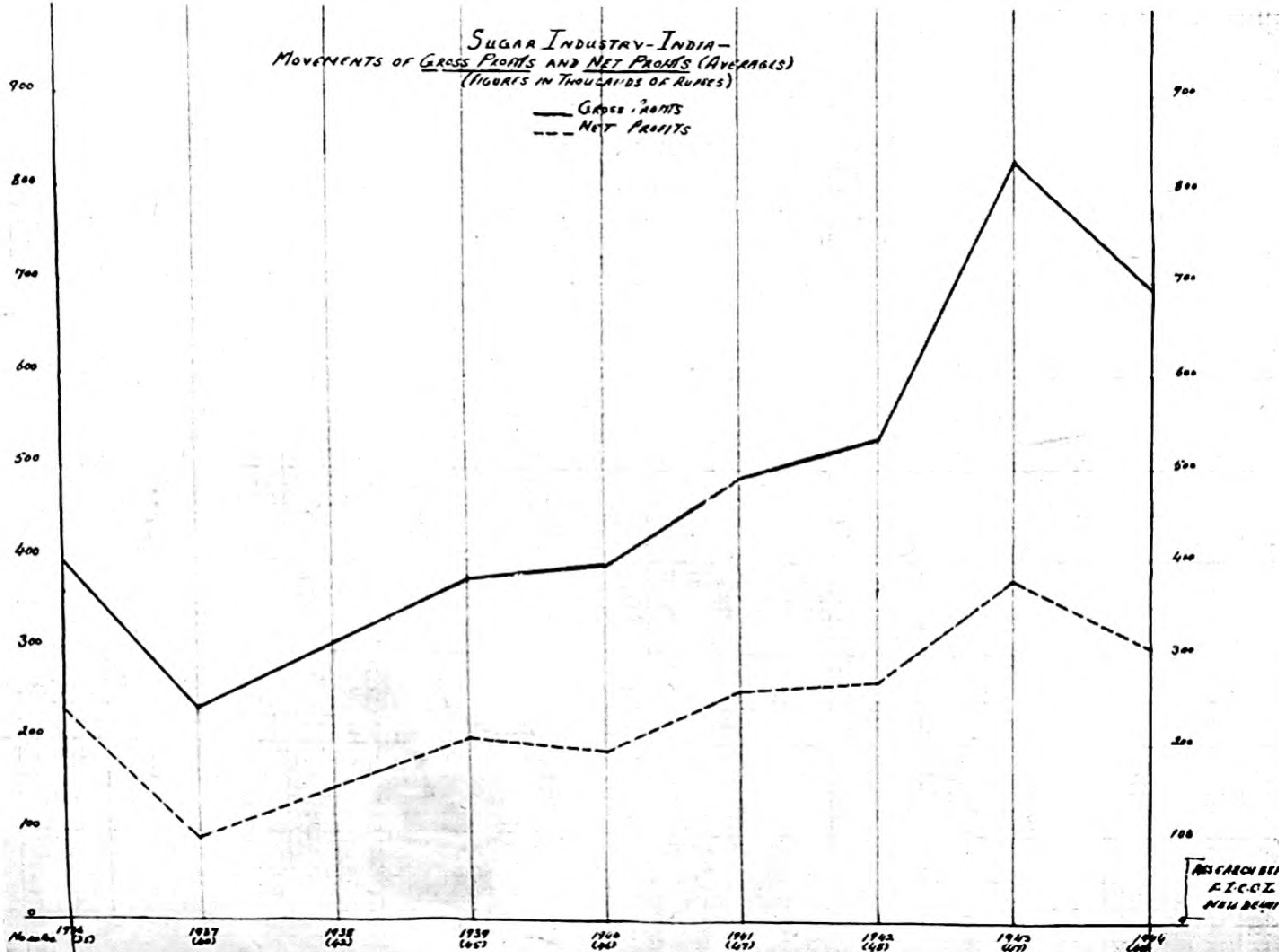
NEW DELHI.


SUGAR INDUSTRY - INDIA -
MOVEMENTS OF GROSS PROFITS AND NET PROFITS (AVERAGES)
(FIGURES IN THOUSANDS OF RUPEES)
GROSS PROFITS
NET PROFITS
900
800
700
600
500
400
300
200
100
0
1936
1937
1938
1939
1940
1941
1942
1943
1944
RESEARCH DEPT.
F.I.C.C.I.
NEW DELHI

	Average net profits per concern (Rs.000)	Index number of average net profits (Base 1939=100)	Proportion of net profits utilized for dividends	Index No. of Reserve Funds (1925=100)[1]
Miscellaneous				
1939	4,72	100	70·3	91
1940	4,93	104	39·0	99
1941	15,42	326	26·5	113
1942	18,60	394	15·4	95
1943	18,91	401	23·3	125
All Kinds				
1939	4,22	100	62·9	151
1940	5,36	127	43·1	160
1941	11,92	282	33·6	180
1942	10,92	259	27·0	185
1943	13,80	327	24·6	150

1 Based on a sample survey of 445 Joint Stock undertakings comprising of 20% of Jute, 11% of Cotton, 19% of Tea, 3% of Sugar, 15% of Coal, 3% of Engineering, 1·5% of Banking and 27·5% of Miscellaneous concerns. The Jute firms taken here represent 84%, Cotton 44%, Coal 70% and Banking 60% of the Paid-up Capital in the Business Groups—M. H. Gopal, *Eastern Economist*, 12-5-1944.

For the Reserve Funds the base year selected is 1935 as it may be taken as a fairly normal pre-war year.

Some Well-known Profits Indices

Profits, however, are one of the hardest kinds of incomes to measure as they are the most variable and indeterminate of corporate incomes. Any business concern could easily state accurately the sums that it disburses during a year as wages, interest or rent, or even the amount of dividends that it distributes among its shareholders but the profits of the enterprise itself are undefined sums arrived at from past transactions, and they involve appraisal of the net changes in the position and prospects of the business as a whole. By their very nature, therefore, profits are uncertain and irregular. But apart from this difficulty arising out of the theoretical analysis of profits, we also encounter other difficulties in respect of their measurement. It has, for instance, been found that there is no unanimity as regards the connotation and contents of profits. The typical difficulties encountered in the examination of the profits even of joint stock companies are illustrated in the *Economist's* profit index which is computed from a sample which does not remain uniform from year to year. In arriving at net profits we must also have a uniform measurement of the taxes paid by joint-stock companies; but the method adopted by different companies for providing for taxes is also not uniform, some companies recording the full amount of the taxes while others show a sum too low to represent their assessment. In some cases, figures of profits disclosed to the shareholders are allocated from or to unspecified internal reserves; while some companies pay tax-free dividends. Finally, it is well-known that directors may attempt to conceal trade secrets by keeping back profits in the form of secret reserves because many a businessman, for obvious reasons, would like to refrain from revealing all his profits.

In spite of all these difficulties, however, we have some very interesting compilations of industrial earnings both in the United Kingdom and in the United States of America. The *Economist's* profits index has been described as "a unique contribution to economic statistics though the material owing to lack of uniform accounting practice

is rarely very simple to handle and sometimes positively intractable." Even this profit index suffers from a number of limitations, such as lumping together of home and foreign concerns, deduction of debenture interest and the disproportionate size of the miscellaneous group. For such reasons, an exact comparison between the industrial profits of one country with those of another is not possible, let alone the peculiarities of company accounts and the differences in corporation taxes and varying assessments from year to year. In the U. S. A. on the other hand, we have a series of well-known indices and regular sets of figures of profits are published in a number of well-known journals like the Federal Reserve Bulletin, the Survey of Current Business, the Bulletin of the National City Bank of New York and the Statistics of Income of the U. S. A. Treasury, to name only the leading few. The sample of the Federal Reserve Bulletin does not include (any representation of) small companies and hence it suffers from over-representation of the durable manufacturing concerns. It studies industrial earnings and dividends of a large number of industrial corporations (629) and provides detailed figures for the net profits of 152 concerns. The National City Bank of New York Bulletin provides data of industrial earnings before and after the taxes in the composite balance sheets of 110 manufacturing concerns.

Review of the Trade of India Profits Index

In India, as we have seen, the only authoritative profits index worked out so far has been the one prepared by the Economic Adviser's Office. The profit indices are available for 8 industries—(1) cotton mills, (2) jute mills, (3)cement, (4) tea, (5) iron and steel, (6) sugar, (7) paper, and (8) coal—separately as well as for all the industries taken collectively. All these indices are worked on a chain basis with 1928 as the base year. The index in 1929 was simply the ratio of the aggregate profits declared by the companies selected to the aggregate profits of the same companies in 1928. Similarly, the index for 1930 relative to 1929 was worked out first and the product of this and the index for the previous year divided by 100 was the index for 1930 with base 1928.

By multiplying this index, by the ratio which the aggregate profits declared by companies in 1931 bore to the profits declared by the same companies in the previous year, and by dividing it by 100 the index for 1931 was obtained and so on. As a chain index it possesses the advantage of the inclusion of new concerns and the exclusion of defunct ones with varying numbers every year. But there are a number of limitations to the profits index because, in the first instance, the companies included here are those exclusively selected from the the Investor's India Year Book of Messrs. Place Siddons & Gough. The total number of companies included for the construction of the index are 72 cotton mills, 58 jute mills, 56 coal companies, 4 cement, companies, 4 iron and steel, concerns, 8 paper mills, 29 sugar mills, and 126 tea companies. An effort is made to cover more than 60 per cent of the units of the principal industries chosen by taking as many companies as would account for more than 60 per cent of the paid-up capital of these industries. But the main limitation is the definition of the net profits in respect of which the index number closely follows the figures given in the said Year Book where net profits are described as the profits of manufacturers less provision made for taxes, interest, commission and other miscellaneous items.* This means that depreciation charges are included in the net profits. Again by selecting the joint stock companies the analyses of balance sheets of which are given in one Year Book only, regional representation of industrial units is bound to suffer.

THE BALANCE SHEET METHOD

In order to obviate these shortcomings and to have a clearer picture of the net earnings of industrial concerns in India, the only method with which we are left is the systematic and close study of the balance sheets of the joint stock companies. Even the income-tax returns or the published

* We have not made any detailed reference to the other study entitled "The Trend of Profits—A Factual Analysis" by M. H. Gopal which covers the period 1918-1939. It contains very useful comparisons such as profits in the U. K., the U. S. A., and India during this period. But the figures of profits are only those of dividends declared by the joint stock companies and are taken from the various Investors' Year Books.

statements of the enterprise cannot be regarded as more dependable or exhaustive than these balance sheets. Although it may be contended that balance sheets need not and frequently do not convey all the information required, they have to be regarded as the only authentic source for the compilation of profits figures ; for the balance sheets alone would give us the requisite material for computing the proportion of profits to the turnover of goods and capital employed. It is true that in our country one has also to face the practical difficulty of collecting the balance sheets of a number of concerns for a series of years but this obstacle need not detain us here.

Net Profits Defined

If, therefore, a fresh inquiry has to be planned the first requisite is the formation of a clear definition of net profits. There are a number of sets of figures which are given under the heading of net profits but the connotation of the terms is not the same in all cases. For instance, in the Economist's[1] index of profits, net profit is defined as the amount of earnings left after deducting taxes. The Federal Reserve Bulletin[2] index of large-scale corporations computes net profits as "balance left before dividends are declared and after all charges including depreciation, interest, special reserves charged as expenses and all taxes have been allowed for." This definition is also largely followed in the Bulletin of the National City Bank of New York,[3] where net profit is shown as excluding depreciation, interest, taxes and other charges and reserves, but including dividends.

In the Economic Adviser's Office Profits Index, net profits are intended to mean profits of manufacture, less provision made for taxes, interest, commission and other miscellaneous items. The contribution made towards depreciation and reserves is not deducted from this amount, but an allowance is made for the transfer of money to profit account

1 Economist, February 26, 1944; p. 290.
2 The Federal Reserve Bulletin, March 1942, p. 214.
3 The National City Bank of New York Bulletin, March 1944, p. 31.

from contingencies and capital or reserve funds, from the sale of Government loans or from charges foregone by managing agents, directors, debenture holders, etc. The Economist's Profits Index series (old basis) excluded capital profits and transfers from the reserves and depreciation if that was separately disclosed. In this way, there is a certain want of uniformity as to the definition of net profits in these index series and as in the case of the Economic Adviser's Index net profits are taken to include depreciation as well. It will, therefore, be easily seen that in order to obtain a correct picture of net earnings of companies, the depreciation charges must be excluded along with the amount paid by way of taxes. We must, therefore, redefine net profits as the amount arrived at after deducting depreciation and other charges including interest on debentures and taxes but excluding dividend payments, allocation to reserves, other savings and carry forward, managing agents' commission and allowances, bonus to staff, and items of intangible nature which are written off.

The Analysis

Having formulated a working definition of net profits we must proceed to formulate an outline of the inquiries that we would like to conduct into the various balance sheets. This outline is intended to show what details we would like to discover from the balance sheets and then to determine by looking at the balance sheets themselves how far can these queries be satisfactorily answered from the balance sheets. If our demands are not satisfied, it will be necessary to formulate our queries in such a manner that the balance sheets are made to serve our purpose.

The study of net profits can be conducted for different industries separately through selected samples of companies representing as many areas or regions as required and we can decide upon the number of these samples on the basis of the paid-up capital of the concerns taken. The results of the different units can then be totalled up and the net profits of manufacturing or mining industries can be computed as a

whole. It may also be noted that the index number of gross profits as between different countries in a particular period can be usefully compared while the index number of net profits enables us to examine the earning capacity of different industries at home. Thus we may begin by taking the income account and finding out the income before taxes by deducting expenses from gross receipts and from this amount deducting the amounts for (1) taxes, and (2) depreciation and other expenses, thus getting the net return. This net return may be compared with the appropriations which a company may make in the form of dividends on ordinary and preference shares or general or specific reserves or other savings and carry forward.

A significant comparison can also be made about the percentage distribution of total earned profits of different industries among the important heads, viz. (1) dividends; (2) taxation; (3) reserves and (4) depreciation. A series of these figures will indicate the proportion of earned profit (gross profit) distributed as between taxation, depreciation and distributed and retained profits. If we compare the amount of taxes paid with the gross profits we may obtain a rough indication as to the incidence of corporation taxes and its floor and ceiling effects. But this comparison has to be followed up by the relationship between taxes and earnings available for distribution to investors.

Net Profit and Turnover

Another important criterion of measuring net profits is the turnover of the business, for the turnover of any business is the most important and determining factor as to whether or not it is a going concern. It will also be interesting to consider the effects of variations in the volume of turnover and net profits as some relationship can be established between the absolute amount of net profits to the turnover. Thus a significant measure that can be made at fairly comparable basis is the ratio of net profits to the volume of sale. It is true that the rate of turn over to profit in any one industry is not indicative of the relative profitability in other industries

but it is jointly an indication of increase in efficiency in that industry. Net profits may also be conveniently related to the unit of sale or to the unit of the currency of the country, such as net profit per rupee of sale. In this way net profits can be shown as percentage of sales.

Net Profits and Capital

It would, however, be more useful for net profits of business to be related to its capital than to its turnover for the comparison becomes somewhat definite that way. Capital as computed from balance sheets generally differs from one establishment to another and there are various methods of arriving at the return on capital. The easiest of them, of course, is the share capital and the net profit is computed as earned on the share capital. Frequently, however, other capital is also invested and utilized in the business either from the undistributed profits in the forms of various kinds of reserves or the capital borrowed from banks and other financial institutions. The National City Bank of New York has adopted the method of computing the "net worth" of a corporation which includes book value of the outstanding preference and ordinary shares and surplus account at the beginning of each year. The rate of net profit earned on the capital invested shows whether the industry utilizes the entire capital invested with at least as much advantage as elsewhere, while the rate of return on "net worth" is indicative of relative efficiency and profitability. With the help of this index one can also judge the ability of the industry to raise fresh capital.

The entrepreneur would also like to relate his net profit to the capital employed whereas to the ordinary investor the rate of dividend is of greater importance. It is extremely difficult to find out from the balance sheets what is the extent of capital employed in a concern and it also raises the problem of defining accurately the term capital employed.[1] The

1 The capital employed means the cost of fixed amounts required in business of electric supply fairly acquired and available for use plus the cost of intangible assessments fairly arisen in promoting the business of electric supply plus the costs of works in progress, and stores, tools and instruments necessary for the business of electric supply plus working capital including the amount of sundry debtors and payments in advance, investment fixed and coal depots, bank balance sheets and cash on hand. (Recommended Principles in the Control of Public Utility Electric Supply and Finance, 1944).

capital employed by an undertaking would relate to all the assets of the undertaking provided they are properly employed in the business and not in some extraneous business. Taken in this way, a working definition of capital employed may be attempted as the figures arrived at by deducting from the total assets investments, cash and bank balances as given in the balance sheets. The investors may lay more emphasis on the power and capacity of the company to earn real profit than would the share-holders who are generally interested in the rate of dividends. The tendency of future capital appreciation and increased business activity by retaining and re-employing that part of profit can easily be compared by two sets of date : the return on capital (both total and invested) and the rate of payment in the long run.

These broad headings may indicate the object with which we would analyse the balance sheets of joint stock companies. The first task will be of making up a list of the joint stock companies in each industry or business. The most convenient way would be to classify them on the basis of their paid-up capital. For example, the cotton textile mills will be classified into those with a paid up capital of (*a*) above 25 lacs, (*b*) between 10 and 25 lacs, (*c*) between 7 and 10 lacs and (*d*) below 7 lacs. This list may be further re-grouped into 4 divisions according as their accounting year ends in the 1st 2nd, 3rd or 4th quarter. The choice of the period may sometimes present difficulties but if we take up a period like the war that has just ended, it would be necessary to take a series of years preceding the war, so that the profit trends in the abnormal periods may be studied in the background of comparatively more normal years. In the case of India, it may also be noted, in passing, that after the amendment of the Indian Companies Act (1913) in 1936 great rigour has been enforced in the presentation of accounts of the joint stock companies. When, however, an analysis of the balance sheets is undertaken, it would be seen that the manner in which accounts are presented by different companies, even in the same industry, is not uniform. If, therefore, a uniform method of analysis is to be attempted, the skeleton of the analysis will have to be adjusted only by a process of trial and

error. Thus even bearing the objectives we have defined in the foregoing paragraphs in mind, we find that all these cannot be straight-forwardly achieved by an examination of the balance sheets with the result that for a uniform tabulation of the figures of various companies, the analysis may have to be conducted for each year somewhat on the following lines:

(1) Gross Profits, (2) Depreciation, (3) Provision for Taxes, (4) Net Profits, *i.e.*, [(1)—(2 + 3)], (5) Amount available for allocation, (6) Dividends, (7) Reserves and other amounts appropriated and unappropriated, (8) Carry Forward, (9) Sales, (10) Managing Agents' Remuneration, (11) Total assets, (12) Investments, (13) Cash and Bank Balances, (14) Capital employed, *i.e.*, [(11)—(12+13)].

Here "Gross Profits" will be arrived at after deducting all other expenses excluding depreciation and taxes from "Gross receipts." Thus "Gross Profit" is net profit plus taxes plus depreciation. In the case of taxes, we have to rely mainly on the provision made for taxes and not on actual amounts paid because balance sheets do not always show these amounts in a uniform manner and frequently this account is carried forward to succeeding years. In the item "amount available for allocation," we include the net profit of the concern plus the carry forward of the preceding year and any amounts transferred from the reserves or shareholders' funds which have accumulated from the profits made in the past. This amount is distributed among the three items, *viz.*, Dividends, Reserves and other amounts appropriated and unappropriated and Carry Forward. Similarly in the reserves and other amounts appropriated and unappropriated, we include reserves and other amounts appropriated under separate heads as also such unappropriated amounts as contingencies, but this excludes reserves for taxation as these are already included in a foregoing item.

Such an analysis would yield totals in respect of each industry over a series of years from which we can easily calculate a number of interesting ratios, such as, (*i*) net profits as percentage of gross profits, (*ii*) provision for taxes as

percentage of gross profits, (*iii*) percentage of dividends to net profits, (*iv*) net profits as percentage of sales (*v*) managing agents' remuneration as percentage of net profits and (*vi*) percentage rate of net profits to capital employed. At the same time, a number of indices can be constructed with a selected year as the base year, such as those for net profits, for dividends paid, for sales and for capital employed.[1]

Conclusion

The foregoing paragraphs have been intended as a plea for the revision of the industrial profits index on which we have so far relied in our country. Indeed, this profits index is frankly not a general profits index but is primarily an unweighted index on gross profits earned by some important companies in India. In fact, it is not even planned on such an elaborate basis as is the security index or the wholesale price index included in the Monthly Survey of Business Conditions in India. It has also been contended that the balance sheets of joint stock companies are very often a race between the auditors and accountants of the company and the provisions of the company law and that in many cases it is possible to get round the provisions of the latter in asmuch as many a balance sheet succeeds in concealing more from—than conceding to—the law giver. But this is a contention which cannot have much relevance here because a fair approximation will certainly serve most practical needs and over a series of years the so-called inaccuracies are bound to be eliminated. Again, if a sufficiently large number of companies is chosen the practices of one are likely to be cancelled out by those of another. Indeed for practical purposes it is difficult to think of anything other than the balance sheets for the measurement of profits unless it be the books of the companies themselves. It is also true that very often there are violent fluctuations in the rate of profits of individual enterprise but these fluctuations too are bound to be

1 It may be added that under un-official auspices such an enquiry into industrial profits for the period 1936-1944 has recently been completed in respect of the principal manufacturing industries of the country, viz., cotton textiles, jute, coal, sugar, iron and steel, cement and paper.

smoothened out over a series of years. Any one acquainted with the market conditions is aware that the profits declared by the business concerns influence the policies of other units in the same industry and in the enterprise as a whole and these cumulatively have a bearing on the fortunes of the financial structure of the company. At a time, therefore, when the Government think of collecting in a handy form all statistical data which could throw light on business conditions in the country, including the census of production, one is justified in hoping that along with these we may also get a reliable profits index at least of the larger industrial enterprises in India.

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INVESTMENTS, PROFITS AND TAXES

BY

D. R. SAMANT

The economic welfare of the people is now universally admitted to be one of the principal responsibilities of the government of every country. The proper discharge of this responsibility implies two things : expansion of production and its equitable distribution. In the case of production there are two agencies that can participate, either exclusively or in co-operation, namely, the state and private enterprise.

If private enterprise is to be relied upon for increasing production, it becomes incumbent on the part of the government to follow such a policy as would encourage private enterprise to expand its productive activity. In this case the welfare responsibility of the government would be restricted mainly to redistribution of the production. But this redistribution must be brought about in such manner as will not make the producers decrease their productive activity. Otherwise the redistributive measures will defeat their own end, namely, the promotion of the economic welfare of the people.

The most important economic problem that faces us today is how to raise the standard of living of the poverty-stricken people of this country. Owing to extremely low production there is little scope for improving the standard of living of the masses by merely redistributive measures. The main objective of our economic policy must, therefore, be to bring about rapid expansion of production.

The essential condition for expansion of production is the expansion of investments. Under an economic system where private enterprise is not eliminated the total size of investments is determined by the public and private investment activities. Out of this total investment the State outlay

can obviously be regulated with relatively greater ease, granting, of course, the requisite knowledge and foresight on the part of the State authorities. But the regulation of the private investments is not such an easy matter. Though government may be able to exercise a restrictive control over private enterprise, it cannot force private enterprise to expand its activities. The most that government can do here is to create such conditions where private enterprise might feel encouraged to increase production.

It must thus be obvious that government cannot dictate expansion of production in the field left to private enterprise. What it can do here is, therefore, to follow such economic measures as would result, on the one hand, in encouraging private productive activity, and, on the other, in maintaining an equitable distribution of the outcome of that activity. Of the various measures followed by any government for maintaining equitable distribution of the national dividend the tax measures form an important part. Taxation policy, especially from welfare point of view, must therefore, be framed in a way that will not only redistribute the current production but would also encourage productive efforts such as investments and efficiency. When any government accepts the responsibility of promoting the economic welfare of the people, the budget necessarily takes the form of an economic plan,[1] and taxation policy naturally forms an important part of that plan. An unwise tax policy will affect welfare adversely, either by encouraging inequality of income, or by discouraging efforts for income production. Though the effects of any tax policy on redistribution of income can be easily noticed, its effects on productive activity, which work indirectly, may remain unnoticed and continue to cause harm indefinitely. It is, therefore, proposed to examine in the following lines the possible effects of certain tax measures on private productive activity.

The size of production in any community depends upon the size of the private and public investments taken together.

1 "The budget nowadays is a conscious attempt to use the taxing and spending powers of the state with the object of influencing both the magnitude of the community's income and the distribution of its expenditure." *The Economist*, 20th Oct. 1945.

In so far as public investments are concerned, their size is determined by the investment decisions taken by the public authorities, let us suppose, with reference to economic welfare. But in the case of private investments, where the motive force is profits, the size will depend upon the profit expectation as entertained by private enterprise.

As savings can be held under normal conditions in liquid form without any loss of value, there would be no incentive to part with liquidity for investment purposes if there were no compensatory income. The rate of income desired from any investment proposal will depend upon the estimate of risks involved therein, on the one hand, and the rate of return available on "riskless" investments, such as Government securities, on the other. The relative difference between the rates of returns expected from the so-called "riskless" and "risky" investments cannot be the same for all countries, nor can it be the same for a given country at all times. The rate of returns desired by the investors depends upon the amount of risks attached, rightly or wrongly, to a given type of investment. These risks may be differently estimated, by people in different countries, and even by the people in the same country, at different times. In such cases there is no sense in pointing out to the investing public in one country that their confreres elsewhere are satisfied with a lower rate on similar investments, or they themselves were satisfied with a lower rate at some earlier time. In the absence of any objective measurements of risks, there is no answer to the possible argument from the investors that they want a higher return because they believe the risks to be higher.

So, given a particular risk-bearing attitude of any community at a particular time, investments will take place only if the rates of return expected from these investments are considered to be adequate to cover the estimated risks. If the rate of return from any particular type of investment happens to be lower than the rate desired, rightly or wrongly, by the investors, investments in that line will be checked. It is obvious, therefore, that whenever, because of taxes or otherwise, the returns from investments decline below the desired

level, investments will cease. This may lead even to dis-investments, so that production declines, prices rise, and profits are brought up to a size which is considered adequate to cover the risks.

One more point to be remembered in this respect is that there is not one particular rate of profits which may be deemed satisfactory for all lines of industrial investments. While a relatively lower rate may be considered good enough for investments in a particular industry, a much higher rate may be desired from investments in another industry because of the supposed greater risks involved in it. What all this means, in short, is that no particular rate of profit can be laid down as an adequate one for private investments in general. The rate of profit will have to vary according to the risks subjectively estimated by the investors in each case of investment.

Any tax on the rate of profits, such as profits tax or business profits tax, which is designed to keep the rate of profits at a particular level, will therefore result in checking investments in those lines from which a higher rate is desired. The underlying idea in introducing such taxes is that the profits which are in excess of what is required to induce investments should be appropriated by the state. The argument so far no doubt is correct. But the difficulty arises while fixing a particular level of profits as a satisfactory one for all lines of industrial investments. Whatever rate we may strike at, it is likely to prove too high in some cases and too low in others. Investments will naturally cease in the latter case. The investors certainly have no right to surplus profits. But in the best interest of the community, the surplus profits must disappear as a consequence of increased production. Where, therefore, investments can be expected to increase as a result of competition, and it is desired that they should so increase, a tax meant to limit the rate of profits is bound to result in restricting investments by lowering their marginal efficiency. In fact, under conditions of competition excess profits cannot last. Competition is bound to bring down profits to a level which is considered just sufficient to cover

the risks involved. And that is the minimum rate to which profits can fall without any adverse effects on production. The taxation of the supposed excess profits can, therefore, be justified only when the high profits cannot be expected to increase investments, as in the case of monopolies, or are not to be allowed to increase investments, as in the case of war. In all other cases a tax on profits is sure to prove a drive against enterprise.

High profits, so long as they cause investments to increase, do more good than harm. In an under-employed country every new investment increases the income of the community by an amount at least equal to the investment. The investors appropriate by way of profits only a part, may be high or low, of the total income generated by their investments. Of course, if we can reduce the appropriation by the investors, the greater to that extent will be the share available to the community as a whole in the new income. But care must be taken to see that our attempts to enhance the communal share in the increased income will not result in dwindling or drying up the source of increase, namely, the flow of investments, itself. That will be to nobody's interest.[1]

It should incidentally be noted that taxation of the supposed high profits cannot justly be opposed, as it is often done, on the grounds of double taxation. It is for instance, often maintained that "profits when they become dividends are subject to tax in the ordinary way as part of individual incomes, and there is no case for taxing such personal incomes twice simply because they derive from profits."[2] But such arguments are due to confusion regarding the theoretical bases of taxation of profits and taxation of incomes. The

1 "...In general any hesitation to make profit-making work, once it has been decided that capitalism cannot be abolished outright, can arise only from muddle-headedness, and is bound to have disastrous consequences...Hence there must be no hesitation to use any method of stimulating private enterprise which involves no sacrifice to the workers. For the resulting increase in employment will bring very great benefits, both directly and indirectly, to the workers, which it would be criminal to neglect." Strachey, John: *Programme for Progress* p. 59.

2 The Economist, Oct. 27, 1945.

underlying principle of income taxation is that every income-earner must contribute towards the state revenue, for whatever purpose it is raised, defence or social services, according to his ability. The source of income is of no material importance here. The taxation of profits is based, on the other hand, entirely on a different theory. Profits are the remuneration for the economic services rendered to the consuming community. The economic role of profits is to maintain and if possible to cause the expansion of the supply of those particular services. Consequently such profits which do not fulfil this role, have no economic justification ; they represent unmixed exploitation of the consumers of those services by the profit earners. Wherever possible such exploitation must be stopped either by fixing the price of the limited supply or by increasing the supply, and thus bringing down the price. If this is not possible, it is better that the surplus profits should be taken over by government and used for the benefit of the community as a whole. The supposed reasonable rate of profit left after such taxation should certainly be liable to the payment of income tax just as the incomes from other sources are. What has been taken away earlier is only the surplus part of profits which had no economic justification. This, therefore, is no double taxation of income. No individual has any right to income arising from exploitation.

The above paragraph must have incidentally made it clear that government is quite justified in taxing away surplus profits i.e. profits which are neither needed for maintaining the supply of investment nor are likely to induce its expansion. But the most difficult problem is how to find out this surplus.[1] Obviously it cannot be done by laying down a particular

1 "However, it is practically impossible for any tax on transactions to fall only where there is a surplus greater than the amount of the tax. There will be some people called upon to pay the tax who do not make as much surplus as this. These people will rather forego the surplus they are getting. Whenever this happens there is a net social loss. The surplus thus foregone is lost to the people affected and is not offset by any gain to the government because there is no tax collected. The tax is collected from those who make a surplus equal to or greater than the amount of the tax, and any surplus which is not enough to support the tax is destroyed. It is this destruction that constitutes the harm in taxes that are not directed carefully so as to fall only on surplus." Lerner A. P., *The Economics of Control*, p. 231.

rate of profit as the standard rate. The rate of profit must vary according to the amount of risks undertaken in each case of investment. And as it has been pointed out above the amount of risks involved in different cases of investment cannot be objectively laid down. Another point to be remembered in this respect is that excess profits and high rate of profits are two different things. As the rate of profit must be commensurate with the amount of risks undertaken in the act of investment a high rate of profits is justified where the amount of risks involved is great too. No particular rate of profit thus can be taken as the standard rate. The same rate of profit may be reasonable in one case while excessive in another. Where conditions of competition exist, the rate of profit can well be expected to reach a reasonable level in due course.

In the case of monopolies of course an excessive rate of profits might continue indefinitely. In such cases government no doubt is justified in taxing away the surplus profits, if the surplus can be measured. But it is poor satisfaction that the surplus profits of the monopolists are taxed away.[1] The monopolists earn the surplus profits by restricting production. And in the real interests of the community the surplus monopoly profits must be made to vanish as a result of expansion of production. So, wherever monopolies are found to exist, government, instead of taxing away the monopolistic profits, would do better to end the monopolistic restrictions on production. This can be done in various ways, for instance, by getting control over the monopolistic business and forcing them to expand production, or by subsidies and price guarantees to private competitors or by under-

1 "Even if it were possible to limit monopoly gains, or perhaps to destroy them altogether by means of taxation or otherwise, their evil effects in distorting the structure of production would still remain; so long as these effects remain, the problem of monopoly has not been solved. The case against monopoly as an influence inimical to both economic progress and stability rests not merely or mainly upon the undesirability of strengthening the forces creating unequal income distribution, but upon the distortion of the normal structure of an expanding economy, which keeps the general income level lower than it need or should be." Fisher A. G. B., *Economic Progress and Social Security*. p. 152.

taking competitive production itself:[1] So even in the case of monopolies taxation of profits is not the proper policy.

The taxes which impinge on the total earnings of an enterprise, irrespective of the rate of profits earned, such as the corporation taxes, are also positively restrictive in effect. The restrictive effects of these taxes are not easily visible. And, therefore, it is sometimes wrongly maintained that, as an adequate rate of profits is made available to the investors even after the payments of these taxes, they cannot result in restricting investments. The fallacy in this argument will be obvious if we go a bit deeper into the problem. With such taxes the net earnings of an enterprise will have to rise above the rate of profits expected by the investors by an amount equal to the tax payments. For instance, if the taxes on corporate incomes amounts to, say, annas 8 in a rupee, and if the rate of profits desired happens to be ten per cent, the enterprise will have to earn an income amounting to twenty per cent of the investments. A higher rate of profits on investments can be earned, *ceteris paribus*, only by keeping investments and production low. So long as investors are not likely to undertake investments unless they can expect a satisfactory rate of return according to their own risk estimates, all taxes on the earnings of enterprises working under competitive conditions are bound to recoil on the community by way of higher prices.

It may be pointed out here that if corporation taxes are removed and only individual income taxes are retained, the shareholders will evade taxes by accumulating profits in the corporations. But this possibility can be avoided by crediting to the shareholders for income-tax purposes the entire profits

1 "Government guarantee of competitive price would nullify any attempts at monopoly by combination or by expansion of firms to a sufficiently large size to exert monopoly power over the prices paid and received. The same result could be achieved if freedom of entry were mintained in all industries so that as soon as any monopoly were formed and it raised the price of the product or reduced the price of the factor, new enterprise would rush in to take advantage of the possibility of extra profit and thus would restore prices and output to the optimum level. The difficulty here is that a large corporation or combination can often intimidate small new comers and the only effective competition would be by the government." Lerner A. P., *The Economics of Control*, p. 85.

earned by the corporation during the accounting period irrespective of the fact whether they are distributed or not.

The taxes on profits were defended in the discussion on the 1947-48 Budget of the Government of India on a novel ground. For instance, it was pointed out that owing to a fall in the rate of interest investors now should feel satisfied with a lower rate of profits.[1] No doubt, with declining rate of interest the rate of profits expected from industrial investments also comes down. This causes investments to expand until the rate of profits declines to the new lower level of expectations, commensurate with the new lower rates of interest. That really is the economic advantage of lowering the rate of interest. But this advantage will not be available if because of simultaneous increase in the rate of taxes the total profits to be earned remains the same. There will be slight redistributive advantage but that is insignificant.

What has been said so far must not be taken as a plea for high profits or big incomes. Nothing is farther than that from the mind of the present writer. These lines are intended to make clear that under private enterprise production will not take place unless it holds out prospects of earning such a rate of profits as is considered adequate to cover the supposed risks.[2] In every community there is a series

1 For instance, Dr. John Mathai, Member for Transport, Government of India, is reported to have made remarks to the following effect while defending the Budget: "The question was what was the rate of return which would operate as a satisfactory incentive to investments? Years ago when the Tariff Board was making inquiries into protection for industry, they used to take rates varying from seven to eight per cent. That was about ten to fifteen years ago. Times had changed, money had become cheaper, and if they were going to adjust a suitable rate of return to the present money conditions, then it seemed to him that to suggest anything like the rates which were considered appropriate ten or fifteen years ago would not be right. Therefore, a lower rate of profit ought to be considered sufficient for the purpose of providing incentive to investment." *The Times of India*, March 5, 1947.

2 " . . . . . . if capitalism cannot be abolished, the wheels of production must be made to turn for profit. Yet a failure to face this fact can only be a consequence of pure muddle-headedness. To adopt a hostile attitude towards profit in that part of the economy which must still be carried on by private enterprise is plainly disastrous. It can only lead, and has led in practice, to deadlock. Capitalism languishes, but no socialism can be organised to take its place. Production is carried on neither for profit nor for use; it is not carried on at all. The mass of the population cannot stand such indecision, for it produces the most intolerable sufferings. Men, women and children go hungry because, while socialist production for use cannot be organized to take its place, conditions are produced in which capitalist production for profit must languish." Strachery, John; *Programme for Progress*, p. 158.

of profit rates demanded by private investors according to their estimate of risks in each case. The taxes which make it necessary to earn profits in excess of these rates will result in restricting production to that extent. We may therefore well conclude that as a rule taxation of profits in any form should be discarded where promotion of economic welfare is the objective of the budgetary policy.

Though taxation of profits as such is undesirable, it does not mean that high profits is a matter for indifference on the part of the government. For it must be remembered that high profits can be earned only by keeping production low. So the higher the rate of profits demanded by the investors the more restricted the production will have to be. In the interest of expansion of production, therefore, government must follow a policy which would induce the investors to invest at a low rate of return. For this it is necessary to bring down the rate of interest as well as the risks involved in industrial investments. This can be done by the government by following an appropriate monetary policy and by establishing right type of investment institutions, which by reducing risks will make money available for productive activity at cheaper rates. If even after this the rate of profits demanded by private enterprise is found to be unreasonably high, say, because of wrongly exaggerated risks, in any socially useful production activity, the State will have to undertake investments in that line on its own account. So also, wherever, because of senseless brands and varieties, prices and profits are found to range high, government should undertake the production of standard quality goods and sell them at reasonable prices. In order to avoid the possibilities of earning concealed profits public auditing should be made compulsory in the case of joint stock companies. All the patent rights and copyrights must be kept available free of charge to the State. This is likely to make private entrepreneurs nervous regarding venturing on new productive activities because of the possibility of competition by the State in future. If this is found to be the case in respect of any productive activity considered likely to prove socially useful, the state will have

to come forward offering a guarantee of the repayment of investments and a low rate, say, $2\frac{1}{2}$ per cent of profits. This will protect the investors against the possibility of loss in the case of experimental new ventures.

A policy along these lines is sure to lead to expansion of production. If instead of this, government resorts only to taxation of profits that may keep profits low, it will also keep production low. It is poor satisfaction to know that no one is earning very high profits. What we really must strive for is to see that everyone is getting economically better off. For this a high rate of expansion of production is essential. So far as better distribution of production is concerned, means other than taxation of profits are to be used.[1]

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1 "If 'soaking the rich' is the order of the day, then the best way to do it is by means of death duties. The second best is by a wide margin in the income tax between earned and unearned incomes. The worst of all—worst in equity and worst in its effects on enterprise—is a tax on profits as such." The *Economist* Feb., 8, 1947, p. 225-26.

IV—FINANCE

POST-WAR FINANCE IN INDIA

By

D. T. LAKDAWALA

The last World War witnessed a tremendous increase in the public expenditure of all belligerent countries including India. Ignoring the provincial expenditure, which though it increased, assumed a less important role with the onset of the war, the Indian Government's expenditure increased from Rs. 85 crores in 1938-39 to Rs. 497 crore in 1944-45, a rise of nearly 485%. If we include in the Indian Government's budget the recoverable expenditure made by India on behalf of His Majesty's Government (Rs. 411 crores) as we should on all sound budgetary principles, the increase in expenditure is seen to be still higher—967%. This big rise has naturally produced a revolutionary effect on all public men and administrators. Whereas formerly they would have hesitated to speak of expenditure projects involving a crore of rupees, they are now so accustomed to think in terms of huge magnitudes that they talk of crores of rupees of expenditure without the slightest feeling of hesitation.

The six years of World War have also seen a quickening of social consciousness, a new insistence on rights on the part of the downtrodden and the oppressed, and a greater readiness on the part of the rich to yield to these claims. Under its influence many countries have resolved to fight "want, disease, ignorance, squalor and idleness." Some have even prepared concrete schemes to carry out this noble object. Ordinarily, the administrative and financial magnitude of the task would have frightened the people and the Government out of their wits; but for persons, who have just gone through the experience of a war and still remember it, this has lost its terrors. In India also, the same phenomenon has been witnessed. Only her backwardness and her needs being greater, the transformation has been bigger. Big memoranda on the needs of retrenchment were being prepared when the Central expenditure was less than Rs. 100 crores a year.

Now both economists and public men discuss seriously plans costing Rs. 10,000 crores in 15 years (and even Rs. 15,000 crores in 10 years) as a workable proposition![1] This welcome change is entirely natural. If vast sums of money can be raised for purposes of destruction and warfare, or to put it better, for national safety and existence, why cannot the same thing be done for constructive purposes, to make life brighter and existence worth living? The answer may not be as obvious to the expert as to the common man, for he realizes the difference between the principles of war-finance and of peace-finance. But, certainly there is no use denying the wisdom of raising the question or shirking its answer. In what follows an attempt will be made to discuss as to how far the means adopted for meeting expenditure in war time can be utilized or adapted to finance peace time expenditure.

Before plunging into this discussion, it may be better to furnish ourselves with some idea regarding the relative importance of the various methods in financing war expenditure. The following table gives the relevant data for the year 1944-45.

SOURCES OF GOVERNMENT EXPENDITURE IN 1944-45

Revenues	39%
Borrowing	38%
Currency expansion ..	23%

It will be seen from this table that the greatest money raiser in 1944-45 was revenue, borrowing a close second, and currency expansion contributed about ¼th of the total expenditure. In order to see how far it is possible or wise to use the three agents to the same extent in peace time, we must analyse the causes which led to their productivity in wartime and examine how far they are likely to, or can be made to, persist. We will begin first with the method on which there is the least difference of opinion, viz. currency expansion.

1 There is some difference between the two figures. The former pertains to state expenditure only, the latter to state as well as private expenditure for development purposes. The change in psychology is none the less marked.

CURRENCY EXPANSION

The causes and the course of Indian inflation are too well known by now to need any discussion here. Even during the war time, there was a considerable protest against it both from the public and the experts as a most inequitable and dangerous method of raising money. Except for the solitary Tata-Birla plan, there has been hardly any serious attempt to preach its continuance in peacetime. The authors of this plan have tried to argue for currency expansion on the ground that it will be needed to finance the increased production and that with proper safeguards it need have no terrors![1] This view seems to be gravely mistaken. Between 1938-39 and March 1947, currency has expanded by 614% and wholesale prices by 193%. Other forms of money have shown a smaller increase; demand deposits have increased by 457% only. The velocity of circulation seems to have considerably gone down. We have no figures regarding the rapidity of currency circulation, but the clearing house returns, which have increased only 242% between 1938-39 and 1946-47, show that demand deposits are not transferred with the same frequency as before. Thus, there is a great inflation potential in the country, and considerable scope for increased production without any fall in prices. Moreover, there are very few people who would plead for a stabilization of prices at the present level. A substantial, though gradual reduction in prices is an agreed policy. Under the circumstances, even a considerable increase in production can be absorbed by the Indian monetary system without producing any undesirable fall in the price level. An increase in currency, therefore, has to be ruled out in the immediate future. Of course, granted the confidence of the people, the State can increase the note circulation to any extent it likes, but the economic and social consequences will be serious. Such a policy will be definitely unsound; unlike in the case of war finance it may jeopardise the very aim of economic and social betterment, for which these sums are raised.

1 A Plan for Economic Development in India, p. 46.

TAX REVENUES

(a) National Income

We may now turn to the question of revenues during peace time and war time. During the war, the total Indian revenues increased from Rs. $84\frac{1}{2}$ crores to Rs. $335\frac{1}{2}$ crores. The tax revenues contributed the most important part of this war time increase. This may be attributed to the following causes: (*a*) Increase in money incomes; (*b*) greater inequality of incomes and (*c*) higher burden of taxation. During the war, thanks to the currency expansion and price rises, though there was no significant increase in production, money incomes rose. The present price level cannot be allowed to continue during the post-war years. An increase or even a continuance of current money incomes at a reduced price level can only be possible, if there is a substantial increase in production. Of this, however, there are no signs ; on the contrary, the two peace time years that have followed the war, have seen a gradual decline in production. *The Capital Index* for business activity has declined from 120·7 in 1944-45 to 110·7 in October 1946 and is falling still further. As long as the present political situation and labour unrest continue, it will require all our skill and resources even to arrest this declining trend. As far as the immediate future is concerned, therefore, unless the price rise continues (a very undesirable course of affairs, but not unlikely) an increase in money incomes is out of question and a decrease quite likely.

(b) Inequality of Distribution

A factor that greatly increased the yield from direct taxes in wartime was the larger distributional inequalities that the war gave rise to. In absence of upto date Income Tax Reports, we cannot form any idea of the extent of the changes in income distribution that the war brought about. But it is certain from all accounts that the great inequalities in income and wealth distribution in India were aggravated by the war time events. This fact was reflected in the yields from progressive taxes which greatly increased in spite of tax evasion on an unprecedented scale. The increase in mal-

distribution of incomes was the result of wages and salaries lagging behind prices. Once the process of rising prices stops, this lag will disappear and with employees becoming more organised the time lag will not be great. With labour restive and insistent on its right and a sympathetic Ministry at the helm not only income but even wealth distribution may be made less unequal in a short time. This factor of increase in revenues may thus disappear in a short time.

(c) *Level of Taxation*

Given the national income and its distribution, the tax revenues will depend upon the level and system of taxation, *i.e.*, to say the various taxes in force and their rates. One of the powerful levers of getting more money during war time was the levying of new taxes like the Excess Profits Tax, Corporation Tax, Customs Duties etc. It would be interesting to examine each of these taxes by turn, and see how far it is possible to maintain them at their war time rates during the post-war period. For reasons of lack of space, however, we must stop fiom this detailed analysis, and be content only with a broad picture here.

It has often been argued that the secret of the success of high war time taxes lies in the people's psychology. During the war, they feel that their liberty, the security of their family and property are at stake, and they feel that no cost is too great to pay for victory. It is because of this psychological background that a very high level of taxation *e.g.*, 19 sh. 6d. per £ on incomes in England or of 15 annas 6 pies in India, which would ordinarily turn the entire people into a nation of liars, is tolerated with resignation, if not accepted with cheer, during war time. It is difficult to create the same mental atmosphere in peace time, because though it may look almost blasphemous to say so, peoples can be roused to greater sacrifices for mutual slaughter than for betterment. It may be that this general psychology is due to false values of life implanted at an early age, and may be remedied by proper methods of propaganda. But, there is no doubt that the richer classes, from whom the largest amounts of revenue

have to be derived, feel more keenly about the course of a war, than they ever could about the improvement of the lots of their unfortunate brethren.

While not denying the truth of a different prevalent psychology during wartime, it may be pertinent to point out that such a vague feeling is not likely to make much difference in the very prosaic day-to-day task of tax collections or payments. In any case in India the whole problem does not arise. The Indian businessmen never felt the war to be their own and profiting out of the same sentiment on the part of the Indian people, they vied with one another in depriving the Indian exchequer of its due. The situation is bound to change at least to some extent for the better in the post-war period, so that as far as this count is concerned, it need not be difficult for the Indian Government to keep as high a level of taxation as before.

The most potent factor that helps to keep the heavy tax burden in wartime is the change in economic conditions that it gives rise to. The sharp break that war economy implies from peace economy makes possible taxes like the Excess Profits Tax which are powerful revenue collectors; in the post-war period, only pale imitations of such taxes are possible. The most valid objection against a high level of direct taxes in ordinary times is its adverse effect on risk supply. The full employment conditions,[1] which are characteristic of the war, reduce greatly the need of risk-bearing and thus the demand for risk-bearing goes down. If the State embarks on a planning policy, as it is very likely to do during the post-war period, this second condition will be repeated to a very large extent. This will enable the level of direct taxes to be maintained at the same level as in the war period, provided the State will take upon itself the responsibility of seeing that the whole economic machine runs smoothly. In wartime the Government makes it its primary duty to see that the war machine and the industries and businesses catering to it, which means in the ultimate analysis, the whole economic machine

1 In a backward country like India, this word has to be interpreted with a certain amount of caution.

are not paralysed. To this end it adopts various detailed controls, and operates industries directly if indirect intervention does not serve the purpose. The State must be prepared to adopt the same policy in the post-war period if any level of direct taxation near the present one is to be successfully maintained.

During wartime, indirect taxes have also been increased to a large extent[1]. The normal objection against such taxes has been that they would lead to a great shrinkage in consumption. This no longer holds good in wartime, when reduction in consumption except of absolute necessaries becomes the aim of the State. In the post-war period, such a rigid aim is no longer desirable, for an increase in consumption not only of necessaries but also to some extent of comforts is the very object of post-war policy. Nevertheless, during the transitional period of shortages and rising money incomes, it should be seen that the demand does not press too much on supply and leads to inflation. Increases in indirect taxes may provide the right remedy for such a purpose.

NON-TAX REVENUES

In war, the non-tax revenues have also contributed their fill or rather more than that. In 1938-39, they contributed 990 lakhs or 12% of the total revenues, while in 1944-45, 7,563 lakhs or 23%. This increase has been due to various reasons, differing with different sources, *e.g.*, in the case of the revenue from the Reserve Bank it has been due to the Government's financial policy and the change in the rules regarding the allocation of profits between the shareholders and the Government. In the case of the Postal Department, it has been due to greater business traffic and increase in rates of various services, combined with a change in the previous convention according to which no revenue was to be derived from the postal services. In the railways, the same causes

1 Some indirect taxes are levied on a specific and others on an *ad valorem* basis. An increase in the rates on the former basis may not mean an increase on the latter basis. Hence, the terminology of indirect tax rates is confused. Strictly speaking, before talking of an increase or decrease in rates, all indirect taxes should be reduced to a common basis, preferably the *ad valorem* one.

were at work. The revenue from coinage increased because of the great demand for smaller coins. Miscellaneous revenue rose because of the war risk insurance premia. A detailed analysis of whether and how these revenues can be made to continue is ruled out here, but a few general considerations may be seen. In the case of the two most important commercial departments, *viz.*, the railways and the post, while traffic is likely to continue at the war level, it cannot be carried with the wartime equipment and materials, so that expenditure in these departments is likely to increase. The persistent demand of labour and clerical staff in these departments for fair conditions of work,[1] and of the customers for proper conveniences will also have to be satisfied. While the wartime rates may continue to prevail in the post-war period, any increase in them is likely to meet with very stiff resistance. It is difficult to say much regarding the new conventions that should be adopted between the Railway and the Postal Departments and the Government Exchequer ; but it is certain that these will have to be more akin to peacetime arrangements than to wartime ones, which were solely adopted with a view to bring more money to the general revenues. Any expectation, therefore, regarding commercial departments contributing to the general revenues as in the war period is out of the mark.

Borrowing

We now turn to the last source of Government finance, *viz.*, borrowing, internal and external. During the war, the internal borrowing programme of the Government brought forth Rs. 181 crores a year ; during the last year (1944-45) the record was much better—Rs. 328 crores. If borrowing can be made to yield some such amount in the post-war period it will greatly facilitate the future Finance Minister's work. Unfortunately, there are many causes which make such a repetition unlikely. It was mainly due to the negative method of preventing alternative outlets that the borrowing programme of the Government was a success. The preven-

1 The Pay Commission's recommendations will, if implemented, cost Rs. 26 crores.

tion was partly done through direct orders like the Capital Control Order, and partly through the controls on buildings and raw materials. Even if both these means are continued during the post-war period, the same rigidity in their administration is no longer possible or desirable. We cannot in the future continue to regard investment in Government loans only as deserving of encouragement. However important the role that the Government may play in the future economic life, it is certain that private enterprise also will have to be allowed to expand. Further, the reduction in distributional inequalities as well as the removal of compulsory savings measures like the clause regarding the compulsory E. P. T. deposits will also have their effects. Taking into consideration all these causes, it should be fortunate if the Government borrowings can reach half their war level.

External borrowing, and what is almost the same thing, liquidation of external assets, may provide us with a better prospective. During the war, India's sterling debt has been practically wiped out and she has amassed a huge sterling balance of Rs. 1,600 crores. If a substantial part of these balances could be utilized in the near future, this would provide a great solace to the Indian Exchequer. Such prospects, however, are few. England in her present mood is not likely to release any significant amount of our sterling assets, especially as it will tend to tighten her dollar situation. Loans from U. S. A. Government or the Export-Import Bank would not have been very difficult to obtain at one stage, but so far the Indian Government under a false notion of her foreign exchange resources has not made any vigorous efforts to approach the U. S. A. Treasury for a loan. Even if the approach is made now, it may not be so easy to negotiate a loan as it was before.

Post-war Normal Expenditure

The amount that can be set apart for economic and social projects during the post-war period will depend on the gap between the money raised during the post-war period and the normal expenditure. We have seen that in all like-

lihood, the former will be substantially less than in the war period. It is equally likely that the defence expenditures will not go down to the levels we once dreamt of and that the non-defence expenditure will definitely go up. Defence expenditure of the Indian Government will be much higher than the pre-war defence expenditure of Rs. 46 crores ; it will be somewhere in the neighbourhood of at least Rs. 200 crores. The wages and salaries of the Government servants have lagged much behind the cost of living and the salaries of many private employees. During the war and sometime thereafter, this was tolerated because of the lack of employees' organization and because of the vast reserve powers lying with the Government. Both these causes no longer operate now, and these classes are determined on getting better pay. The Central Government has partly anticipated this by accepting the recommendations of the Pay Commission, but even this may not suffice and the Government may be forced to grant more concessions. Normal expenditure during the post-war period will, thus, much exceed the pre-war one and the sums available for special reconstruction and development projects will be much less than may be suggested by any figures regarding likely post-war revenues and borrowing and non-defence expenditure during wartime.

CONCLUSION

On the whole, then, it would seem that at least as far as the Central finances are concerned, any possibilities of setting up very large sums for planning in the near future are rather small. The Provincial finances with their inelastic revenue sources and their policy of prohibition may have even a worse tale to tell. This need not however prove a damper to us; it should only set us thinking harder and more intensely regarding the priority among the various projects that have been drawn. It is upon wisdom in this selection that our future prosperity will depend. If this job is done well, the finances of the future will be much easier to manage, and it will be possible to spare much larger sums for financing development plans after a short time. This is the precise difference between peace and war finance. During a war

it is easier to raise large sums of money than during peace, but soon war revenues and borrowing reach a maximum. Since all this expenditure is incurred for destructive purposes, war expenditure cannot feed upon itself. During peace time, it may not be immediately possible to spare the same vast sums, but if this expenditure is wisely incurred, it will lead to an increase in national income, thus making possible still large sums of expenditure and so on. It is on this cumulative possibility of wise peacetime expenditure that we must learn to rely rather than on great immediate possibilities, if our hopes are not to be dashed to pieces.

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JOINT STOCK BANKING IN INDIA—SOME REFLECTIONS *

By

D. N. Maluste

Recent Growth of Banking Offices

Since the establishment of the Reserve Bank of India in April 1935, there has been a steady development of joint stock banking in India and this development was greatly accelerated during the period of the Second World War, particularly after about the middle of 1942. Not only have the banks previously established increased their capital and extended their operations but also a number of new banks have come into existence. The number of banks included in the Second Schedule to the Reserve Bank of India Act when the Reserve Bank first commenced its operations on the 1st April 1935 was only 50 but their number has since been nearly doubled and there are now as many as 97 banks included in the Schedule. There has also been a substantial increase in the number of non-scheduled banks (*i.e.*, banks the paid-up capital and reserves of which amount to less than Rs. 5 lakhs and which are therefore not included in the Second Schedule to the Reserve Bank of India Act) and although accurate statistics regarding these banks are not readily available, their number may be estimated at about 700. Both scheduled and non-scheduled banks have opened a number of new offices. Whereas at the end of 1939 their offices numbered only about 1,800, they were almost doubled by the end of 1944. During the year 1945 further 1,000 new offices were opened by these banks with the result that at the end of 1945 there were about 5,300 banking offices. Although latest data is not available, there are indications that there was a further increase in the number of new banking offices in 1946 prior to the Banking Companies (Restriction of Branches) Act which came into force on the 22nd November 1946. It may be added

* These are personal reflections recorded in my personal capacity.

that the figures given above do not include offices of banks the paid-up capital and reserves of which are less than Rs. 1 lakh nor the money-lenders and indigenous bankers.

Increase in Banking Resources

There has been a considerable increase in the resources of banks during the last few years. Due to reasons which are well-known there has been an enormous increase in currency circulation since the outbreak of the war. The total notes in circulation amounted to only Rs. 182 crores on the 1st September 1939, but they amounted to Rs. 1,242 crores on 28th March, 1947, an increase of nearly seven hundred per cent. There has also been a considerable absorption of rupee coins and coins of smaller denominations. This great increase in the circulation of money has led to a corresponding though not a proportionate rise in the deposits of banks. The following table shows the notes in circulation and the demand and time liabilities of scheduled banks since the outbreak of the war.

(In crores of rupees)

Date.	Notes in circulation	Demand liabilities	Time liabilities	Total liabilities
1-9-1939*	182	135	102	237
29-12-1939*	236	147	105	252
27-12-1940*	241	175	101	276
26-12-1941*	336	225	113	338
25-12-1942	570	335	111	446
31-12-1943	841	501	157	658
29-12-1944	1,010	616	203	819
28-12-1945	1,211	673	280	953
27-12-1946	1,225	730	331	1,061
28-3-1947	1,242	681	346	1,027

* Statistics for Burma included.

It will be seen from the above table that in common with a number of other countries the increase in demand deposits has been greater than that in time deposits. Whereas the demand liabilities of scheduled banks have increased from Rs. 135 crores on the 1st September 1939 to Rs. 694 crores

on the 14th March 1947 time liabilities have risen from Rs. 102 crores to Rs. 347 croies over the same period, the percentage of time deposits to total deposits having gone down from 43 to 34 while that of demand liabilities to total liabilities having increased from 57 to 66. It is, however, satisfactory to note that since the termination of the hostilities there has been an improvement in the rate of growth of time deposits. This has reduced the vulnerability of the banking system.

Deposits of the non-scheduled banks (with capital and reserves of over Rs. 1 lakh) have also increased from Rs. 16 crores at the end of 1939 to Rs. 92 crores at the end of 1945, the average deposits per non-scheduled bank having increased from Rs. 12·2 lakhs to Rs. 38 lakhs during the same period.

Increased Liquidity of Banking Assets

Though the deposits of banks inceased considerably during the war period there was no corresponding rise in the demand for bank finance during that period as may be seen from the following table showing the total advances and bills discounted by scheduled banks. Similar statistics for non-scheduled banks are not available.

(In crores of rupees

Date	Advances	Bills Discounted	Total	Demand and time liabilities	% of 3 to 4
	1	2	3	4	5
1-9-1939*	101	4	105	237	44·3
29-12-1939*	143	4	147	252	58·3
27-12-1940*	102	2	104	276	37·8
26-12-1941*	123	6	129	338	38·2
25-12-1942	95	3	98	446	22·0
31-12-1943	161	7	168	658	25·6
29-12-1944	236	13	249	819	30·4
28-12-1945	303	24	327	953	34·3
27-12-1946	442	23	465	1,061	43·8
28-3-1947	471	22	493	1,027	48·0

* Statistics for Burma included.

As a result of the increase in deposits and of the absence of a corresponding increase in the demand for bank finance, the assets of banks became more liquid during the war period and they maintained proportionately higher cash balances as may be seen from the following table giving the position of scheduled banks.

(In crores of rupees)

Date		Total demand and time liabilities	Cash and balances with the Reserve Bank of India	Ratio of cash to demand and time liabilities
1-9-1939*	..	237	32	13·5
29-12-1939*	..	252	25	9·9
27-12-1940*	..	276	57	20·7
26-12-1941*	..	338	42	12·4
25-12-1942	..	446	64	14·4
31-12-1943	..	658	116	·17·7
29-12-1944	..	819	106	13·0
28-12-1945	..	953	121	12·7
29-12-1946	..	1,061	117	11·0
28- 3-1947	..	1,027	106	10·3

*Statistics for Burma included.

It will be observed from the above table that the percentage of cash to demand and time liabilities of scheduled banks which stood at 13·5 on the eve of the war rose to 20·7 at the end of 1940. Thereafter, owing to a slightly improved demand for funds but mainly due to increased investments in Government securities, the percentage of cash to total liabilities continued to decline and stood at 13 at the end of 1944. Since the termination of hostilities there has been an increase in the demand for bank finance with the result that the percentage of cash to total liabilities of scheduled banks has declined to 10·3 at the end of March 1947.

The non-scheduled banks which were previously reported to be maintaining inadequate cash balances have also steadily improved their position in this respect and although complete statistics are not available, it is noticed that the percentage of their cash balances to their total deposits which was only about 7 at the end of 1939 is now nearly 10.

Both the scheduled and the non-scheduled banks have also improved their liquid position by investing large amounts in Government securities. The total investments of the scheduled and the non-scheduled banks (having capital and reserves of over Rs. 1 lakh) which did not exceed Rs. 100 crores before the outbreak of the war are now estimated at Rs. 500 crores, i.e., nearly 50% of their total deposits.

Profits of Banks

The cumulative effect of the changes in the structure of the assets and liabilities of banks brought about by the war has led to an increase in their profits and to a greater demand for bank shares, especially of the old established banks, at rising prices. However, the profits of banks did not rise in proportion to the rise in their working funds. The slackness in trade demand for funds has led the banks to invest in Government securities with comparatively low yields. They had also to incur larger expenditure on their establishments owing to the rise in the general price level and in a number of cases due to an indiscriminate extension of branches. A number of banks also earned fairly large profits on speculative purchases and sales of Government securities, prices of which have been generally rising during the last few years mainly on account of the cheap money policy pursued by the Government.

Certain Defects in our Banking System

It would be seen from the foregoing that there has been a great expansion of joint stock banking in this country during the last few years, although it cannot be said that we have reached the saturation point. As compared to the advanced countries of the West, we have a considerable leeway to make and there will have to be a further increase in the number of banking offices, if the benefits of the modern banking system are to percolate to our poverty-stricken and debt-ridden ryots. But the time is now opportune to consolidate the progress already achieved and to remove the defects that have characterized the development of banking so far in order that the further progress may be on sound lines.

The first point that may be mentioned in this connection is that a considerable improvement is required in the general standard of management of a number of banks. There are a few banks which are managed as efficiently as some of the leading banks in the advanced countries of the West but this cannot obviously be said of the great majority of our banks. It is a truism that good banking depends not so much on good laws as on good bankers. As a result of the rapid growth of banks during the last few years there has been a dearth of trained personnel and this deficiency will have to be removed at an early date. It is therefore necessary to recruit and train personnel of the requisite ability and integrity. Apart from this, in a few cases banks are reported to be under the control of unscrupulous persons which results in defalcations, embezzlements and fraudulent mismanagement. Some of the banks are also reported to be run not to promote the general interest of the community but of the particular group of interests responsible for their establishment. This leads to undesirable interlocking between allied concerns. In this connection it is to be noted that a banker, unlike other businessmen, is trading with the funds of others and unless he is a man of character and integrity the bank which he controls is bound to come to grief sooner or later and result in loss to its depositors. Under the Banking Companies (Inspection) Ordinance, 1946, the Government of India have already assumed powers to take action against banks conducting their affairs to the detriment of the interest of their depositors. A comprehensive Banking Companies Bill designed to regulate and control the banking system is also before the Legislature. The enactment of these measures and their efficient administration will no doubt result in a gradual detection and eradiction of unsound banks but it is ultimately for the depositors and the general public to be always careful about the banks they patronize and to discourage those known to have been mismanaged. The depositing public must be more vigilant than they have been hitherto and should not be lured by banks merely because of the attractive terms offered by them or by their lavish advertisements.

The second point that may be noticed is that although we have a few large banks which can stand comparison with some of the leading banks abroad in resources, the average size of our banks, especially of the non-scheduled class, is still too small to enable them to employ the right type of personnel and to operate on accepted lines. It is, therefore, necessary that the smaller banks should combine among themselves or amalgamate with some other big banks so that there may be an end to the present unhealthy scramble for business. Small banks are no doubt required for our country-side, but just as it is essential that small agricultural holdings should be consolidated into economic units if our agriculture is to progress, it is also similarly necessary to consolidate the smaller banks into units of sufficiently large size. Banks the paid-up capital of which is not adequate but which do not wish to amalgamate with other banks must as an alternative take early steps to increase their paid-up capital. Banks must also utilize the profits they are making now to strengthen their reserves instead of frittering them away in payment of higher dividends as some of them are doing at present. Unless they take steps to strengthen their position as indicated above they may not be able to maintain the progress made during the war period and be in a position to meet successfully the problems and difficulties that may arise once the present inflationary conditions disappear.

Thirdly, the development of banking that has already taken place is lop-sided in that there has been an undue concentration of banks in larger towns and cities. While the number of banking offices has shown a very rapid increase during the war the number of places formerly not served by banks to which banking service has been extended remains comparatively very small. Of the new offices of scheduled banks, only about 300 are reported to have been opened at places which were not previously served by banks. There are still about 600 urban places in British India and 500 urban places in Indian States which do not yet have banking offices. The new banks have mostly opened offices in important towns which enjoyed fairly adequate banking facilities and they have entered into competition with the banks

already well-established there. This tendency must stop, and banks, in a position to open new banches, should do so at centres which require but are without banking facilities. It is to be hoped that the administration of the new Banking Companies (Restriction of Branches) Act, 1946 will promote the growth of banking offices on right lines.

Finally it may be pointed out that the development of banking that has taken place so far has been on traditional lines and banks have mainly contented themselves with pure "deposit banking." A number of representations were made both before the Indian Industrial Commission and the Central Banking Enquiry Committee that the financial facilities available for the establishment and development of industries are not adequate but none of our banks has yet made attempts to make available such facilities on any appreciable scale. The experiments in "mixed banking" on the German model have of course failed in many countries but our banks, especially the older ones, could have promoted jointly an industrial bank to assist the development of nascent industries. The establishment of an Industrial Finance Corporation for this purpose is now contemplated but it will obviously take considerable time before the new institution is able to start its operations. Another direction in which a joint effort appears necessary and may be fruitful is the establishment of an Indian Exchange Bank to finance our foreign trade. It has been a long standing complaint of our businessmen that the facilities offered by the existing exchange banks are not adequate or otherwise satisfactory and because of this some of the banks have already established a few branches or agencies overseas. But it is doubtful whether attempts in this direction by individual banks will be sufficiently successful in view of the hazards involved in this type of business and of the keen competition which they may have to face from the existing exchange banks. It, therefore, appears desirable for our leading banks to promote jointly an Indian Exchange Bank with sufficiently large resources in order that it can operate competently and profitably.

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BANKING LEGISLATION IN INDIA.*

BY

M. S. NADKARNI

The question of enacting comprehensive banking legislation for the protection of depositors and for the promotion of banking in India on sound lines has exercised the mind of the public in this country for many years. The banking crisis of 1913-14 brought home to the depositing public the desirability of statutory restrictions on certain undesirable types of activities of some commercial banks such as the combination of banking with trading, the grant of large unsecured advances to the directors of banks, their firms and companies and the maintenance of an unduly low proportion of cash and other liquid assets. The Indian Central Banking Enquiry Committee (1931) went into the question and recommended the promulgation of a special Bank Act, covering the organization, management, audit and liquidation of banks. Certain important recommendations of this Committee were incorporated in the Indian Companies (Amendment) Act, 1936, through the addition of a separate chapter relating to banking companies. Thereafter public attention was again drawn to the question of banking legislation in 1938 when the Travancore National and Quilon Bank Ltd. failed creating a feeling of insecurity among certain classes of bank depositors in South India. The Central Board of the Reserve Bank of India gave their careful consideration to the problem in 1939 and submitted to the Government of India "Proposals for an Indian Bank Act" which were circulated by the Government for eliciting public opinion in 1940. Owing to war developments and the preoccupation of the Government with problems relating to the prosecution of the war, the proposals were held in abeyance for sometime but with the favourable turn in the war situation the question was revived in 1944. A bill incorporating the recommendations of the Reserve

* Any expression of opinion contained in this article reflects the personal views of the writer.

Bank was introduced by the Government in the Central Legislative Assembly in November 1944 but it lapsed due to constitutional reasons. A fresh bill was introduced in the Legislative Assembly in February 1946 and was referred to a Select Committee. The report of the Select Committee was presented to the Assembly by the Hon'ble Finance Member on the 17th February 1947 and it is now expected that the Bill will come up for final disposal, at the earliest, during the current session of the Legislature.

NEED FOR BANKING LEGISLATION

The question whether a country requires statutory control over its banking institutions or not can only be determined with reference to the economic circumstances and the banking situation in that country. In many countries—and in particular in several European countries after the economic depression of 1930-33—legislative restrictions on banking were introduced with a view to eliminating abuses and malpractices which manifested themselves during periods of emergency or crisis. In several others, statutory control was imposed with the object of extending to all banks the principles and traditions followed by the best banks. Generally speaking, in many parts of the world banks which collect the savings of the community and place them at the disposal of trade and industry, are regarded as public institutions and statutory regulation of their activities is considered necessary for safeguarding the interests of the depositors and for fostering the development of banking on sound lines. The admittedly successful banking system of Great Britain, however, shows that detailed legislative control is not essential for the efficient functioning of Banks. It may nevertheless be mentioned that even in Great Britain a fairly elaborate Joint Stock Banks Act was enacted in 1844 containing provisions for the control of the number of banks, minimum capital, publication of balance sheets, restrictions on advances against a bank's own shares, etc.[1] This Act was repealed in 1857 by being merged in the general company law. The subsequent

[1] Allen and others: Commercial Banking Legislation and Control, Page 229.

growth of sound banking traditions also made such legislation superfluous in Britain.

In India, as already mentioned above, the demand for banking legislation has its origin in successive bank failures in the country. The Indian Central Banking Enquiry Committee analysed the causes of these failures and mentioned the following as the principal ones: combination of trading with banking, dishonest management, incompetence of directors, bad and speculative investments, unrestricted loans to directors and their concerns, utilisation of short-term deposits for long-term loans, insufficient paid-up capital and reserves, and insufficient liquidity of funds. Since the publication of the report of the Banking Enquiry Committee, banking in India has made considerable progress, particularly during the war years. Between 1935 and 1946, the number of scheduled banks has risen from 49 to 96; their total demand and time liabilities in India have increased from Rs. 221 crores to Rs. 1,061 crores, and the total number of their offices and branches in India has gone up from 723[1] to 3,519. As regards the non-scheduled banks, although the number of such banks submitting returns under Section 277 (L) of the Indian Companies Act has shown a comparatively small increase from 626 in 1938 to 632 in 1945, their total demand and time liabilities have risen during the same period from Rs. 15·42 crores to Rs. 73·64 crores.[2] With regard to branch banking, the total number of the offices of the non-scheduled banks having paid up capital and reserves of Rs. 50,000 or over has shown a large increase from 343 in 1938 to 2,343 in 1945. In assessing these figures, however, allowance must be made for the inflationary conditions created by the war. Some of the smaller banks present a number of unsatisfactory features such as a meagre capital structure, and insufficiency of liquid assets in the form of gilt-edged securities,.[3] The recent suspension of business by certain banks in Calcutta and elsewhere has only served to emphasize the urgency of banking legislation in India designed to eradicate

1 Includes figures for Burma.
2 Statistical Tables relating to Banks in India and Burma, 1944-45, page 8.
3 Reserve Bank of India : Proposals for an Indian Bank Act, p. 30.

the drawbacks in the existing banking structure, to conserve the progress made during the war, and to promote the development of banking on sound lines.

Banking Laws in Foreign Countries[1]

Although the banking laws of various countries are formulated to meet their individual requirements, there are certain underlying principles or features which are more or less common to many bank laws. In the first place, there are in many such laws restrictions on the forms of business in which banking companies may engage, as in Canada, Denmark, and the United States of America. Secondly, there is usually a provision for a minimum capital, which may either be an absolute amount or may be based on the deposits of the bank or the population of the city or town in which the bank operates. There are such restrictions in Belgium, Canada, Denmark, Norway, South Africa, Sweden, Switzerland and the United States of America. Thirdly, there are regulations with regard to the maintenance of an adequate amount of cash or liquid assets (apart from the balances maintained, where required, with the central bank) as in Belgium, Denmark, South Africa, Sweden and Switzerland. Fourthly, in certain countries there is also some form of control on the opening of new banks or the opening of branches by existing banks as will be seen from the banking acts of Australia, Canada, Norway, Sweden and the United States of America. Fifthly, there is provision for periodical inspection by Government or other authority, of the books and accounts of banks as in the United States of America and Canada. Lastly, the commercial banking laws in various countries almost invariably provide for the submission of periodical statements and balance sheets by banks either to the Government or the central banking authority.

Existing Legislation in India

Before the passing of the Indian Companies (Amendment) Act, 1936, banks in India were governed in all important

1 Based mostly on 'Commercial Banking Legislation and Control' by Allen and others.

respects such as incorporation, organization, management, etc., by the Indian Companies Act which was common to banking as well as non-banking companies. There were, however, a few provisions in the Companies Act which distinguished banks from other companies such as section 4 which prohibited a partnership exceeding ten in number from carrying on the business of banking unless it was registered as a company, section 32 which required, under Form E in the Third Schedule prescribed under that section, that banking companies should submit a list of all their places of business to the Registrar along with the annual list of members, etc., Section 132 and the Form F prescribed thereunder which exempted banking companies from the obligation to show the provision made for bad and doubtful debts which had to be shown in the balance sheet in the case of other companies, Section 136 which required limited banking companies to make a statement in Form G in the Third Schedule every half-year, Section 138 which empowered the Local Government to appoint inspectors to investigate into the affairs of banking company on the application of members holding not less than one-fifth of the shares issued, the proportion in the case of other companies being one-tenth of the shares issued, and Section 145 which provided that if a banking company had branches beyond the limits of India, it should be sufficient if the auditor is allowed access to such extracts or copies of accounts of the branches as have been transmitted to the head office of the company in British India. The amendments to the Indian Companies Act passed in 1936, by adding a separate Part XA relating to banking companies alone to that Act, drew a clear distinction for the first time between banking and non-banking companies. The new Section 277F which was introduced by the Amending Act defined a "banking company" as "a company which carries on as its principal business the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft, or order" notwithstanding that it engages in addition in one or more of the forms of business specified in sub-paragraphs (1) to (17) of that Section. As already mentioned above, Part XA of the Companies Act was based on the recommendations of the Central Banking Enquiry

Committee and contained some of the essentials of a banking code. Apart from the definition of banking company, its principal features were : (*i*) a provision limiting banking companies from carrying on business other than banking proper [Section 277G (2)] ; (*ii*) abolition of the managing agency system in respect of banks by providing that no banking company shall employ or be managed by a managing agent other than a banking company for the management of the company (Section 277H) ; (*iii*) a provision for a minimum paid-up capital of Rs. 50,000 for banks incorporated after the 15th January 1937 (Section 277I) ; (*iv*) prohibition of charge on unpaid capital (Section 277J); (*v*) provisions for the maintenance of reserve funds and cash reserves by non-scheduled banks (Sections 277K and 277L); (*vi*) restriction on the nature of subsidiary companies and prohibition on the holding of shares in any company, except a subsidiary company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 40 per cent of the issued capital of the company; and (*vii*) provision for a moratorium by the Court for banks temporarily unable to meet their obligations.

The above amendments, combined with the provisions of the Reserve Bank of India Act relating to scheduled banks which had come into effect earlier in July, 1935, placed banking in India on sounder basis than ever before. In a short time, however, the limitations of the Amending Act of 1936 began to manifest themselves. The definition of a banking company gave rise to administrative difficulties in determining whether a company was a "bank" or not. Out of about 1,421 companies operating in British India in 1938 which could be regarded as non-scheduled banks only 672 submitted the returns required under Section 277 (L) of the Companies Act, the others claiming for various reasons that they did not fall within the definition of a banking company set out in Section tion 277F.[1] The provisions of the Amending Act thus proved inadequate and difficult to administer. Further the banking crisis in South India in 1938 drew attention to the desirability of enacting comprehensive legislation for the

1 Reserve Bank of India : Proposals for an Indian Bank Act, 1939, page 1.

protection of the depositor. The Central Board of the Reserve Bank of India therefore gave their earnest consideration to the problem and submitted to the Government of India in November 1939 certain proposals for legislation in the form of a Draft Bill. The main features of the Bill were as follows; In the first place, an attempt was made to provide a simple definition of banking, the term having been defined as "the accepting of deposits on current account or otherwise subject to withdrawal by cheque." Secondly, the proposals sought to ensure that institutions calling themselves "banks" had a sufficiently large paid-up capital to enable them to operate on a scale large enough to make it possible for them to make reasonable working profits. Thirdly, the Bill proposed certain moderate restrictions on bank investments in order to protect the depositor. Lastly, certain provisions were made for expediting the liquidation proceedings so that if a bank failed the depositors would get what was left with the minimum delay and litigation expenses. In view of the abnormal conditions created by the war, however, Government decided not to undertake detailed legislation for the time being, but they undertook certain interim measures to reinforce the administration of the Indian Companies Act in regard to banking companies. Accordingly, the Indian Companies (Second Amendment) Act was passed in 1942 according to which a proviso was added to Section 277F to the effect that any company which uses as part of its name the word "bank", "banker" or "banking" shall be deemed to be a banking company, notwithstanding the fact that the acceptance of deposits on current account or otherwise subject to withdrawal by cheque, draft or order, is not the principal business of the company. In 1943, the Bombay High Court decided that the Government's Notification dated the 16th January 1937, granting exemption to banking companies from showing in the balance sheet the provision for bad and doubtful debts was *ultra vires* ; as a sequel to this decision, the Indian Companies (Amendment) Act, 1943, was passed under which Form F in the Third Schedule was specifically amended to enable banks to omit the "Provision for Bad and Doubtful Debts" on the liabilities side of the balance sheet and to deduct from

"Book Debts" on the assets side those bad and doubtful debts for which provision had been made to the satisfaction of the auditors.

During 1942 and 1943, mainly as a result of war-time inflationary conditions and controls, a number of new banks were floated, and the capital structure and the terms of managerial appointments of some of them showed highly undesirable characteristics. The Indian Companies (Second) Amendment Act, 1944, was therefore passed adding a new Section 277HH to the Companies Act, and amending Section 277I. Under Section 277HH, no banking company can employ or be managed by a managing agent or any person whose remuneration takes the form of a commission or share in the profits of the company or any person having a contract with the company for a period exceeding five years. The Section, however, provides that a contract for employment may be extended for a further period not exceeding five years so often as the directors think fit. Section 277I, as amended, provides, *inter alia*, that no banking company incorporated after the 15th January 1937, shall carry on business unless the subscribed capital of the company is not less than half the authorized capital, and the paid-up capital not less than half the subscribed capital and unless the capital of the company consists of ordinary shares only or ordinary shares and such preference shares as may have been issued before the commencement of the amending Act. It further requires that the voting rights of all shareholders shall be strictly proportionate to the contribution made by the shareholder to the paid-up capital of the company. These provisions and more so the promulgation by the Government of the Order relating to the Control of Capital Issues in 1943 helped to check the growth of mushroom banks.

Revival of the Reserve Bank's Proposals

With the favourable turn in the war situation in 1944, attention began to be devoted to problems that would arise in the post-war period. In order to conserve the progress made in India during the war years in the sphere of banking,

and more particularly the striking growth in resources and in the number of banking offices, and to provide against any possible repurcussions in the post-war era, it was necessary that comprehensive legislation should be enacted as early as possible. The Central Board of the Bank reviewed their proposals for banking legislation made in 1939 in the light of subsequent developments and experience and submitted to the Government an enlarged Banking Bill. This Bill, after examination by Government, was introduced in the Legislative Assembly by the Finance Member on the 14th November 1944. The main additional provisions contained in this Bill, as compared with the Reserve Bank's Draft Bill of 1939, were as follows : (*i*) The Bill placed a definite prohibition on trading by banks and required that any non-banking asset acquired by a bank in satisfaction of its claims in the course of banking business should be disposed of in a specified period. (*ii*) Profiting by the experience of bank failures in India, the Bill imposed a prohibition on the grant of unsecured loans to directors of banks, their firms, and companies. (*iii*) The Bill provided for a system of licensing banks incorporated outside British India or the United Kingdom, one of the factors to be taken into account by the licensing authority before the grant of the licence being whether the applicant bank was incorporated in a country, the Government or law of which did not discriminate against banking companies registered in British India. Banks already carrying on banking business in British India before the commencement of the Act were exempted from the licence. (*iv*) In order to fill the lacuna in banking statistics, the Bill provided for the submission of monthly statements of assets and liabilities of banks to the Reserve Bank as also half yearly statements regarding the classification of their advances and investments in respect of industry, commerce and agriculture. (*v*) A provision was also made for a return of unclaimed deposits to be submitted to the Reserve Bank, somewhat on the lines of that contained in the banking acts of Canada and Australia. (*vi*) The Bill prescribed a special form of balance sheet and profit and loss account for all banking companies operating in British India, whether incorporated in British India or outside. (*vii*) The Central Government were authorized,

under certain circumstances, to direct the Reserve Bank to inspect the books and accounts of any banking company and make a report thereon to the Government. *(viii)* A provision was also made for the appointment of the Reserve Bank as Official Liquidator in relation to the winding up by Court of a banking company. A motion for the circulation of the Bill for eliciting public opinion was adopted by the Legislative Assembly on the 16th November 1944. During the Budget Session of 1945, the House adopted the Finance Member's motion to refer the Bill to a Select Committee.[1] The meetings of the Committee were scheduled to be held in October 1945, but owing to the decision of the Governor General not to extend the period of the continuance of the Legislative Assembly beyond the 1st October 1945, the proposed meetings were cancelled and the Bill lapsed. Although detailed legislation was thus postponed indefinitely, Government assumed certain powers provided in the Bill by promulgating the Banking Companies (Inspection) Ordinance, 1946, which empowered the Government to direct the Reserve Bank to carry out the inspection of the books and accounts of any banking company and report thereon to the Central Government.

THE BANKING COMPANIES BILL, 1946

After the fresh elections to the Central Legislature in 1945, a new Bill, *viz.*, the Banking Companies Bill, 1946, was introduced in February 1946 based on the earlier measure of 1944, with several modifications in the light of the opinions received on that measure. Most of the changes made were of a minor character, designed to tighten up or clarify the provisions of the original Bill of 1944, but there were also a few new clauses like those relating to the restriction on commission on the sale of a bank's shares, the trial of offences and the application of fines imposed under the proposed Act, and an amendment of Section 42(6) of the Reserve Bank of India Act relating to the inclusion into and exclusion of banks from the Second Schedule to that Act. A motion to refer the Bill to a Select Committee was adopted by the Assembly

1 Legislative Assembly Debates, 11th April, 1945, p. 2788.

on the 11th April 1946 but owing to constitutional developments this Committee could not meet until after the close of the autumn session of the Assembly. In the meantime, in order to regulate the expansion of branch banking which had shown certain undesirable characteristics such as an undue concentration of banking offices in the larger cities, a mushroom expansion of branches by several small banks involving capitalized expenditure beyond the resources of the banks, payment of high rates of interest on deposits, etc., the Government decided that the provision in the Banking Companies Bill relating to the control on the opening of branches should be enacted in advance of the main legislation. The Banking Companies (Restriction of Branches) Act, 1946, was accordingly passed during the 1946 autumn session of the Legislature requiring banking companies to obtain the permission of the Reserve Bank before opening new branches or changing the location of existing branches. The Act also provides that before giving such permission the Reserve Bank may require to be satisfied as to the financial condition and history of the company, the general character of its management, the adequacy of its capital structure and earning prospects and whether or not public interest will be served by the opening or the change of location of the branch.

The meetings of the Select Committee on the Banking Companies Bill, 1946 were held from the 21st to the 29th November 1946, the 13th to the 20th January 1947 and on the 8th February 1947. During its sittings in November 1946, the Committee examined 17 witnesses, most of whom were representatives of the various banks. The report of the Committee was presented to the Legislative Assembly by the Hon. Finance Member on the 17th February 1947 and it is expected that the Bill will come up for final disposal, at the earliest, during the current Budget Session. The Bill, as it has emerged from the Select Committee, would appear to be a comprehensive and well balanced measure, and even at the risk of repetition, it may be desirable to indicate some of of its principal features.

THE BANKING COMPANIES BILL AS AMENDED BY THE SELECT COMMITTEE

The Select Committee made several changes in the Bill, the chief of which are given below :

(*i*) The original Bill defined "banking" as "the accepting of deposits repayable on demand." The Committee were not satisfied with this brief definition and after studying the definitions given by Halsbury and other authorities,[1] have suggested the following definition. "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise. Further, in order to prevent the use of demand deposits for long-term lending or for capital expenditure, the Committee have added a new clause prohibiting companies other than banking companies from accepting deposits repayable on demand. The difficulties of evolving a satisfactory legal definition of banking are very great, and although there are legal definitions in the Argentine, Belgium, Norway and South Africa, none of them can be regarded as quite suitable under Indian conditions. It is therefore to be hoped that the definition evolved by the Select Committee will be found generally acceptable.

(*ii*) The Bill places new restrictions on the managers and managing directors of banking companies, in addition to those contained in Section 277HH of the Indian Companies Act which will be repealed by the proposed Act. It is provided that no banking company shall be managed by a person who is engaged in any other business or vocation, or whose remuneration is on a scale disproportionate, according to the normal standards prevailing in banking business, to the resources of the company. The latter provision was already contained in the 1944 Bill, but the Select Committee have added a sub-clause to the effect that if any question arises in any particular case whether the remuneration is

1 Legislative Assembly : Report of the Select Committee on the Banking Companies Bill, Page 1.

disproportionate or not, the decision of the Reserve Bank thereon shall be final. A new clause has also been added prohibiting a banking company incorporated in India from having as a director any person who is a director of another banking company.

(*iii*) The Committee have amended the clause relating to minimum capital requirements for banking companies. Excepting that they have adhered to a minimum paid-up capital and reserves of Rs. 5 lakhs for banks operating in Bombay or Calcutta or both, they have given up the population basis and replaced it by one based on a territorial range of a bank's activities, and have introduced the conception of "regions" or "areas" contained in Section 4 of the Reserve Bank of India Act. The minimum paid-up capital and reserves for a bank having only one office except at Bombay or Calcutta is now Rs. 50,000, and the capital requirements increase with the number of branches of the bank and the "area" or "areas" in which it operates, the overriding minimum for a bank incorporated in British India being Rs. 15 lakhs. For banks incorporated outside British India a minimum paid-up capital and reserves of Rs. 15 lakhs has been prescribed, apart from the additional Rs. 5 lakhs for offices in Bombay and Calcutta. Banks incorporated outside British India have to deposit cash or approved securities with the Reserve Bank of an amount equivalent to the minimum capital requirements, but the banks in Indian States have been exempted from keeping such deposits.

In order to present an undue concentration of voting power in the hands of a few persons, a new sub-clause has been in-corporated in the clause limiting the voting rights of any shareholder to one tenth of the total voting rights.

(*iv*) In view of the tendency noticed among certain banks to declare dividends before writing off their capitalized expenses, a new clause has been inserted by which banking companies are sought to be prohibited from paying any dividend on their shares until all their capitalized expenses are completely written off.

(*v*) As mentioned above, the Banking Companies Bill of 1944 sought to prohibit grant of unsecured loans to banks' directors, their firms and companies. It was pointed out by several banks that this clause interfered with legitimate banking business[1] and a compromise was arrived at in the Committee under which while unsecured loans to directors, their firms and private companies are prohibited. In the case of loans to public companies in which the directors of the bank are interested as directors or managing agents, it has been provided that returns should be submitted every month to the Reserve Bank and powers have been given to the Reserve Bank to impose restrictions on such advances if it appears to the Reserve Bank that such advances are being granted to the detriment of the interests of the bank's depositors.

(*vi*) The clause relating to licensing has been altered so as to require every banking company to take out a licence. A power of appeal to the Central Government has been given to a bank aggrieved by the cancellation of its licence.

(*vii*) The clause relating to inspection has been redrafted somewhat on the lines of the Banking Companies (Inspection) Ordinance, 1946, and it has been provided that the Reserve Bank may, at any time, or on the direction of the Central Government, inspect a banking company. The Reserve Bank is required to furnish the bank inspected with a copy of the inspection report.

(*viii*) A new clause has been added to the Bill enlarging the powers and functions of the Reserve Bank in relation to banking companies. The clause empowers the Reserve Bank to caution and advise banking companies, to assist them as intermediary in proposals for amalgamation and to grant loans to them under a new amendment which the Bill proposes to Section 18 of the Reserve Bank Act. The proposed amendment to the Reserve Bank Act is significant inasmuch as it enables the Reserve Bank in emergencies to grant advances to a banking company against "any security the

1 Evidence before the Select Committee on the Banking Companies Bill, p. 74.

Bank may consider sufficient." In recent years it has been generally recognised that central banks should not be hampered by legal restrictions in giving assistance to banks and the proposed amendment follows the lines of Section 10(*b*) of the Federal Reserve Act of the United States of America.

The new clause incorporated in the Bill by the Select Committee enlarging the powers of the Reserve Bank also authorizes the Bank to call meetings of directors of a banking company for considering matters arising out of an inspection report or for meeting an officer of the Reserve Bank to disucuss such matters and also empowers the Bank to direct changes in the management of a banking company if indicated on an inspection. Furthermore, the clause requires the Reserve Bank to submit to the Central Government an annual report on the trend and progress of banking in the country and to appoint such staff as it may consider necessary for the scrutiny of the returns and statements furnished by banking companies and to ensure the efficient performance of its functions under the proposed Act.

(*ix*) The Committee considered it necessary that the Imperial Bank of India should be brought within the scope of the proposed legislation and have accordingly inserted a clause under which certain provisions of the proposed Act not covered by the Imperial Bank of India Act would be applicable to that Bank.

(*x*) As stated in the Notes on Clauses to the Bill, the Bill is confined to companies carrying on the business of banking. The Select Committee desired to extend the scope of the Bill to partnerships and individuals carrying on banking business, commonly known as "indigenous bankers," but were advised that there were constitutional reasons against such an extension of its jurisdiction. It would appear that under the Government of India Act, 1935, the powers of the Centre to legislate in respect of banking are restricted to corporations. The Committee, however, desired that the question should be further examined with a view to introducing subsequent legislation, extending the provisions of the Bill to other banking concerns.

CONCLUSION

It will be seen that the Bill as it has emerged from the Select Committee is a comprehensive measure, and when enacted and worked in a proper spirit of co-operation, should help to lay the foundations of a sound banking structure in India. It may, however, be stated that evolution of sound banking is not merely the result of banking laws but depends essentially on good bankers. It is hardly necessary to say that good and honest bankers cannot be produced by legislation but rather by proper methods of selection, training and promotion. Nevertheless, a comprehensive banking law can help the growth of sound banking traditions, which alone can ensure that banking plays its rightful part in the economic and industrial regeneration of the country.

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STOCK EXCHANGE AND CAPITAL MARKET IN INDIA

By

H. T. Parekh

The effect of war on the capital market has been perhaps more far-reaching than its effect on other aspects of Indian economy. Both demand for and supply of capital rose manyfold. War necessitated public borrowing on an unprecedented scale. From just under Rs. 1,200 crores in 1937-38 the Public Debt increased by over Rs. 1,000 crores. The supply was possible because of rising national money income due to war-time stimulus to industry coupled with monetary inflation which has always been potent weapon of war everywhere in the world. Scheduled banks' total deposits during the last seven years have gone up from Rs. 234 crores to nearly Rs. 1,000 crores. Similarly notes in circulation which were Rs. 192 crores in 1939-40 stood at Rs. 1,218 crores at the end of 1945-46. The following figures of subscriptions to Indian Defence Loans including small savings during war years reveal the growing magnitude of the supply of capital which helped financing the war.

(in crores of rupees)

1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
85	64	100	341	266	376

Investments in Central Government Loans during 1945-46 reached the record figure of Rs. 376 crores. Small savings alone in the form of Post Office Savings, National Savings Certificates, etc., stood at Rs. 220 crores at the end of 1945-46 as against 108 crores in 1940-41. Net investment during 1945-46 exceeded Rs. 60 crores showing the potentiality of small savings movement. These figures show how the capital market was dominated by war requirements since 1940.

Resources of the capital market have grown tremendously as a result of the war. The market canalised them for war purposes. In the process free flow of capital gave way to various control measures calculated to divert capital into required channels. Excess Profits Tax set a limit to rising industrial profits. Provisions relating to voluntary, and later compulsory deposits of a portion of these profits diverted them to swell Government balances.

In May 1943 with the introduction of Control of Capital Issues by Government flow of new capital was severely regulated. The objects of the Control were to prevent the establishment of those industries which did not assist in the production of essential war or consumption goods and to check the growth of mushroom companies.

The control passed through several phases. From May 1943 to May 1944 long-range schemes were discouraged with exceptions in suitable cases and subject to the condition that the money would be invested in defence loans or other new Government securities and kept so invested until it could be spent for the intended purposes. A relaxation was made in April 1944 when the Government of India decided to allow issues of capital for long-range schemes even if they were still in an indefinite form, out of the consideration that industrial development in the immediate post-war years would be facilitated if companies with adequate amount of capital at their disposal are already in existence. After the end of the Japanese war in August 1945, the Government granted an exemption in favour of any issue by a company, other than a banking and insurance concern, for an amount not exceeding Rs. 1 lakh. In December 1945 the exemption figure was raised to Rs. 5 lakhs.

Available figures indicate that in 28 months (till the end of the war in September 1945,) 4,660 companies applied for an aggregate issue of Rs. 385 crores. Consent was given to 3,784 companies involving a total capital of Rs. 260 crores and constituting 81% and 67% respectively of the number of companies and the amounts applied for. Outright refusals

numbered 876 (18·8%) for an amount of Rs. 89 crores (23·2%) involving 250 companies (for Rs. 23 crores) in the case of industrial issues, and 626 companies (for Rs. 65 crores) in the case of non-industrial issues. In respect of the amount sanctioned the percentge of consents to applications was the highest in the industrial group, namely 82% as contrasted with 52% in the non-industrial group. Of the consents, industrial issues numbering 1,766 account for an amount of Rs. 160 crores. In the non-industrial group 883 financial companies such as banks, insurance companies, etc., asked for consent to issues amounting to Rs. 122 crores of whom 503 concerns secured permission for floatations of Rs. 50 crores.

As regards distribution between short and long-range schemes 94·7% of applications or 75% of the amount asked for relate to immediate schemes. In the immediate class the non-industrial group is more important while in the long-range category the industrial group is the most important accounting for 90% of the number of companies and the amount sanctioned.

When we put side by side the figures of new capital flowing into Government Loans and Industrial issues interesting light is thrown on the behaviour our capital market during the war period. In three years between March 1943 and 1946 over Rs. 980 crores of capital was raised by Government, while only Rs. 250 crores were raised by private industry in 28 months of which 50 crores were for finance companies. Industrial development was a poor second, more so when it is remembered that the bulk of the new industrial capital was to be locked up in Government Loans pending availability of capital goods. In short, not only industrial development was neglected but control of capital issues both negatively and positively facilitated Government borrowing for war.

The tempo of new capital issues quickened in the post-war period while Government borrowing fell off. During the nine months from October 1945 to June 1946, 897 companies applied for a capital issue of Rs. 209 crores. Consent was given to 678 companies involving a capital of Rs. 165

crores, as against the capital issue of Rs. 260 crores in the previous 28 months. Further details are given by sub-dividing the amount sanctioned into three categories, namely, main, financial and other industries. The first covers expenditures on new factories, etc., while the "financial" group includes issues which do not cover addition to new productive capacity beyond what is possible with funds already at the disposal of a company in the shape of bonus shares, etc. The third category deals with subsidiary industries and enterprises. Weekly figures are published for new capital issues sanctioned after June 1946 with the names of companies in whose favour sanction has been accorded. This is a great improvement. Statistics relating to recent weeks show considerable increase in new issues. In January, February and the first three weeks of March 1947 sanctions obtained approximate fifteen crores of rupees a month. In the last week of March alone sanction for Rs. 25 crores has been given. At this rate the annual figure would come to somewhere between Rs. 200 and Rs. 250 crores. All those who obtain the sanction are not necessarily able to raise the required capital. Unfortunately, figures of actual capital raised are not available. It is necessary to obtain and publish this information periodically.

On the other hand actual public borrowing during 1946-47 went down to Rs. 112 crores against budget estimate of Rs. 250 crores. The budget estimate of borrowing for the year 1947-48 has been further reduced to Rs. 150 crores. Between public borrowing and industrial issues new capital raised since the war can be roughly estimated at Rs. 400 crores per year.

II

So much for the growth of resources of the capital market. This newly earned wealth has made old investors, both institutional and private, more powerful. It has also given rise to a mass of new investors who are small as well as large and individuals as well as corporations. Banks and insurance companies for the most part constitute this new class. Industrial prosperity revived public interest in old scrips as well

as in new share issues. These facts have combined to give the Stock Exchange a new importance in Indian economy. Turnover on the old Stock Exchanges of Bombay, Calcutta and Madras became enormous compared to pre-war standards. New Stock Exchanges have arisen at Lahore, Delhi, and Hyderabad (Dn.) and broking firms have cropped up in many principal towns of the country.

Even before the war Indian states played an important part in the economic development of their own areas by supplying whole or part of the capital and giving other facilities such as cheap power, land, etc. Mysore and Hyderabad serve as examples of this category of states. This lead has been followed by others such as Travancore in recent years. What is of greater significance is the fact that Provincial Governments are now coming forward to take a share in new industries or companies, either individually or in partnership with neighbouring States or with the Central Government. For both the Travancore state and the Government of Madras contributed to the capital of the Travancore Fertilisers Ltd., floated some years back. The co-operation of Hyderabad and Madras in the proposed Tungabhadra project is another example of the common determination to achieve economic prosperity.

The support of states and governments for raising large capital is particularly necessary in this country because of the absence of underwriting houses who can take up such risks. Today underwriting has been mostly done by brokers who have so far done the job well. Occasionally commercial banks have come forward and underwritten new issues. As for instance the Central Bank of India Ltd. underwrote issues of the Amrit Oil Mills and of the Hind Textiles, while the Bank of Jaipur underwrote the capital of the Estrella Batteries. The number of large investment trusts in existence today does not exceed ten; only a few of these underwrite industrial issues.

So long as banks underwrite such risks in a small way and cautiously this tendency is helpful to industry, particularly

when specialised institutions for such work do not exist. The Central Government's plan to start an Investment Corporation with a capital of Rs. 5 crores carrying Government guarantee and which will be subscribed to by the Government, the Reserve Bank, the other banks and the insurance companies in co-operation is a welcome step, but somehow the plan is in abeyance at present.

Another noteworthy feature of our capital market which might grow in importance is the existence of the Indian State Loans of Mysore, Hyderabad, Bhopal, Travancore, etc., and of the Provincial Governments of Bombay, Madras, Punjab, etc. Many of these are issued after they are underwritten by banks and brokers. With the present tendency to insist on more powers for the provinces in the new constitutional set up and as the need for capital for local development grows and as the plans for nationalization of public utilities and other industries materialise these local gilt-edged issues might play an increasingly important role in our capital market.

The one result of all the increased activities is that the market is no longer narrow. One or a set of individuals cannot easily manipulate prices and control the market as he used to do before the war. It has become more broad-based like the London and New York Stock Exchanges. It is true that our stock exchanges do not offer the vast variety of investments available on those exchanges which is but a reflection of the advanced stage of economic progress of those countries.

III

A brief review of the working of the Stock Exchange during the war years would not be out of place to show how this situation has come about.

During the first phase of the war from September 1939 to May 1940 the commodity as well as stock markets were dominated by a wave of speculation. It was based on the belief that war demand means soaring prices while the

economy was not yet geared to war purposes. Tata Deferreds, for example, were quoted at Rs. 1,300 on 25-7-1939 and at Rs. 2,332 on 5-1-1940. But German Victory and the imposition of Excess Profits Tax pricked the bubble. The boom collapsed. The second phase of depression continued from May 1940 for almost a year. The crisis on the stock exchange was a part of the severe crisis experienced by all the markets. The manner in which the stock exchange authorities met the crisis and the steps they took to restore order does them great credit. In May 1940 values were collapsing so rapidly that on the 22nd of that month the authorities decided to close the Exchange for 24 hours. Special sanction was obtained from the Government for the purpose. Forward trading was suspended *sine die*. The Board of the Exchange made it obligatory on its members to carry all outstanding forward business at buyer's option. The Board fixed prices and interest charges at every monthly settlement. On June 14 minimum prices were fixed for scrips on the forward list and cash dealings were permitted in them. This measure was necessary to check further decline and to stabilise the market. It resulted in two quotations for forward scrips, one in cash and the other in forward. The condition of the forward market was still precarious as it carried a large dead-weight of speculative purchases. According to official figures the value of all outstanding forward transactions in June 1940 settlement was over Rs. 11 crores of which Rs. 9 crores related to five leading scrips. Transactions in Tata Ordinaries and Tata Deferreds amounted to Rs. $7\frac{1}{2}$ crores *i.e.*, $\frac{2}{3}$rd of the total. Actual number of outstanding Tata Ordinaries was over 1,00,000 and of the Deferreds over 20,000.

Forward trading remained suspended for over three months till October. Meanwhile confidence was returning. On the 9th October the minimum prices were withdrawn and restricted forward trading was permitted from the December settlement. The conditions of restricted forward trading were, (1) Fresh purchases could be made, (2) sales could be made against outstanding purchases; but (3) no short sales were allowed. This measure reduces the volume of outstanding business to the extent deliveries are taken by those who

make fresh purchases. More healthy conditions would be restored to the extent weak holdings were liquidated. Price could not be hammered down by short sellers. The Board of the Stock Exchange were justified in devising ways and means which favoured the bull and descriminated against the bear in order to give relief to those in difficulty. In December 1940 the value of outstanding position was reduced to half *i.e.*, Rs. $5\frac{1}{2}$ crores.

Once the crisis was past a more permanent solution had to be found out. The alternatives were either the restoration of free unrestricted forward trading or its entire suspension for the duration of the war. The first was ruled out under the prevailing circumstances. Government whose sanction was essential had definitely set itself against reopening forward market during the war. Government were insisting on closing the forward section while the Stock Exchange authorities were opposed to that course. All through 1941 sentiment was improving. Cash dealings in scrips on the forward list facilitated easy buying or selling. Alongside, these scrips had a quotation in forward because of the limited outstanding contracts which had to be carried from month to month. As outlook improved speculative buying of limited number of shares on the forward section resulted in forward quotations of these scrips being at a considerable premium over their cash quotation. On the 3rd December 1941 the Tata Deferreds was quoted at Rs. 2,200 in cash and at Rs. 2,353-8 in the forward market. The difference in cash and forward rates evoked strong public comments though turnover in forward section was only small. Such a situation, however, was not created or encouraged by the Board though it should not have been permitted so long. Once the crisis was over the rules outlived their utility. No steps were taken to enforce liquidation of open forward position in 1941 with the result that shares merely continued to change hands.

The third phase of recovery lasted six months till December 1941 when the Japanese entry into the war brought about a political crisis of the first magnitude in India. 1942 was a year of panic. India was invaded. Fear of insecurity

was responsible for slump in prices. The Economic Adviser's indices of variable industrial security prices which stood at 150 (1927-28=100) in December 1941 dropped to 120 in the middle of 1942 and then recovered to 145 by the end of the year. Tata Deferreds fell from Rs. 2,332-8 on the 3rd December to Rs. 1,600 on the 16th December (minimum), to Rs. 1,522 (the new minimum) on the 16th February and to Rs. 1,265 on the 27th March after removal of minimum price restrictions. Cash quotation dropped to Rs. 1,090 on the 16th April when the forward rate was Rs. 1,255. In July the remnant of forward business still outstanding amounted to only Rs. 1·6 crores, which included 4,000 Tata Deferreds and 10,000 Ordinaries. Time was opportune for finally putting an end to forward trading. In July it was announced that all outstandings must be cleared so that as from the October settlement forward section would cease to exist altogether.

From 1943 the fourth phase of rising prices set in and continued till the middle of 1946. The indices have been steadily rising and stood at 314 in August 1946. This has been the period of general inflation, mounting war expenditure and rapidly improving war situation resulting in victory and the post-war boom.

Gilt-edge prices moved similarly, being chiefly influenced by war news. 3½% Paper dropped to Rs. 81 soon after the declaration of war but it recovered and touched Rs. 84 twice in 1940 and 1942 when France collapsed and Japan advanced into India. On 2nd March, 1942, minimum prices were fixed and dealings below these prices were prohibited by a Gazette Extraordinary of the Central Government. Despite such a sharp decline the Government security prices moved steadily higher because of the official decision to pursue cheap money policy ever since war began, backed by open-market operations when necessary. Actually the first Defence Loan issued in 1940 was the short 3% 1946 Loan redeemable at Rs. 101. As the war advanced each successive loan came to be offered on harder terms than the preceding one. The 3% loan which was short-dated in 1940 could only be

obtained as the longest-dated loan in 1946. The end of the war meant no difference to the gilt-edged market. The logic of cheaper money was carried a stage further. In August 1945 the short-dated $2\frac{1}{2}\%$ 1950 was floated. This was followed in January 1946 by the issue of $2\frac{3}{4}\%$ loan to mature in 1960. The stage was thus set for the most momentous announcement in the history of the Indian gilt-edge market. On May 24th the Government notified that the whole of the $3\frac{1}{2}\%$ Paper amounting to Rs. 281·8 crores will be repaid at par on 16th September 1946. From 15th August to 16th September the holders were to have the option of converting their holdings into 3% conversion loan of 1946 redeemable at par not earlier than 1986 or $2\frac{3}{4}\%$ 1976 loan issued at Rs. 99.

The working of the gilt-edge market during the war shows how the technique of achieving and maintaining cheap money was perfected. The scope of open market operations has greatly widened and now includes sale of new loans on tap from time to time at rates which the authorities consider proper. Public issues of new loans were so arranged that the market was continuously supplied with new loans all the year round to suit the needs of different classes of investors who require short, medium, as well as long-dated loans.

IV

It was observed that an upward trend set in 1943. It was an inflationary rise not confined to the stock market but noticeable in all markets like bullion, commodity, manufactured goods, etc. To check this tendency Government promulgated an Ordinance under the Defence of India Rules in September enforcing ready delivery contracts to be settled within seven days and banning forward business as well as "badla" or carry-over operations on the floor of the Exchange. The Stock Exchange authorities criticised Government for such action taken without consulting them and which would only cause incovenience and hardships without achieving success in checking speculation. Once again the controversy about how to check excessive speculation raised its head. The

Government order was based upon the wrong assumption that limiting delivery period would act as a brake on speculation. The machinery of carry-over known as "badla" operates to finance speculation and apart from a little inconvenience, it is relatively immaterial whether the period of settlement is a week, a fortnight or a month. Interest charged is adjusted to delivery period. Nor can a formal decree banning the "badla" be easily enforced. Large private finance circulates on the Exchange for this purpose and so long as speculators offer an attractive rate of interest there is no easy way of eliminating it. The line between investment and speculation is so fine that no amount of paper rules can be effective. Gambling is undesirable but such activity is widespread and not peculiar to the Stock Exchange. No rules are adequate enough to correct such an activity. Nor will people refrain from such indulgence when times are propitious and external factors such as war and inflation are the dominating causes. As a rule it is best to leave the market to its own forces and correctives. Tampering with the market can hardly do any good.

Stock Exchange is no easy way to fortune. No one should nurse the illusion that sobriety can be learnt through bitter experience. Trying to form rules in the vain effort to protect speculating class is to show sympathy which is both out of place and futile. So long as forward markets are allowed to function corrective forces of the market itself will work more effectively than any imposed set of rules.

Just as an upward trend in prices due to larger causes could not be checked by notifications and alterations in the rules of trading so also the downtrend cannot be stopped either by frequent closure of markets, fixing minimum prices or putting restrictions on free-trading as indicated by the recent happenings on the stock exchanges. The continuing slump on the stock exchanges this year is the aftermath of the over-trading and excesses committed last year during the period of post-war boom. Crisis which was already developing was only precipitated by the budget proposals and the markets were paralysed.

It must be said to the credit of the Bombay Stock Exchange that it did not commit the error of fixing minimum prices like the Calcutta and Madras Stock Exchanges. The device of minimum prices whatever its utility during wartime is altogether valueless in normal times and only succeeds in destroying liquidity. Mr. K. R. P. Shroff quoting a London Journal in 1941 very well observed that : "Minimum prices alone will not suffice to ensure liquidity. In themselves, indeed, they are destructive of it; for their very purpose is to maintain values by liquidity sacrifice. The experience of equity shares shows in fact that when the trend of the market is persistently downward, the price of liquidity is continuous depreciation. The effect of inserting a peg in a falling market is to close that market as surely as if the Stock Exchange doors were bolted and guarded by a sentry with a fixed bayonet. Support is useless without a bottomless purse, since it does not stop selling but aggravates it, on the principle that where the meat is, there will the eagles be gathered together. Price stabilisation at a particular level thus is no better cure for inherent market weakness than pegging a thermometer at 'normal' is a cure for fever."

Temporary restrictions on free trading which were recently imposed in Bombay to tide over the crisis are less objectionable but frequent closing of the market is undesirable. Steps to check hammering down of prices by bears in difficult times is everywhere reckoned as a desirable policy though they are often misunderstood as aids to the bulls at the cost of the bears. In effect closing the market or restrictions on trading no more prevent prices from falling than fixation of minimum prices.

Open and free market must be the first objective of stock exchange authorities. In that lies the safety of the investor and liquidity of his investments. The second objective should be to ensure an orderly marketing of securities by checking over-trading, especially by brokers themselves, as well as violent fluctuations in prices. Frequent failures of brokers resulting from their own business is a matter of serious concern as it lowers the reputation of the Exchange, though financial losses resulting from them are not sustained by the

public but by other members of the Exchange. The high status which the London Stock Exchange enjoys because of its smooth and orderly working ought to be the model for our Stock Exchange.

V

Regulation of Stock Exchange activity is more appropriate when the interest of the public, that is the investing class, is in danger. For instance, many of the evil practices connected with new company floatations can be eliminated by more detailed provisions in the Companies Act and by more stringent rules enforced by Stock Exchange Committees. The Report of the Cohen Committee published in Great Britain sometime back takes a great step forward in this direction. Some of the principal recommendations of that Committee are suitable for adoption in India. Dealing with new issues the Committee recommend that there shall be delivered to the Registrar of Companies for registration with every prospectus not being an offer to existing members, (*a*) a copy of every material contract mentioned in the prospectus, (*b*) the written consent of any expert to the inclusion in the prospectus of any copy of or extract from his report in the form and context in which it appears. If a prospectus states that an application will be made to the Stock Exchange for permission to deal in shares it shall be bound to make such application not later than two days after the issue of the prospectus. If no such application is made for or sanction definitely refused all allotments shall be cancelled and money refunded. Criminal liability of directors for false and misleading statements in the prospectus is enhanced by laying the onus on the directors to establish that they did not know that the statement was false. Similarly accountants, valuers and other experts should also be made more liable unless they can prove their innocence. It is suggested that even bankers, brokers or solicitors who allow their names to be mentioned in the prospectus are responsible to the investing public. It is further recommended that fuller disclosure of financial relations between directors and companies is desirable in public interest and in order particularly to check directors from deriving benefit from any

special information they get on account of their position. The directors should, therefore, disclose all their transactions in shares and debentures so that shareholders may ask for information if necessary. Similarly tax-free salaries to directors should be ended as an undesirable practice. Other forms of remuneration to directors should also be disclosed to shareholders. Publication of fuller details in the Profit and Loss account and in the Balance Sheet and on a uniform standard is recommended to help the shareholders to judge the position correctly.

VI

Detailed regulation on these lines to stamp out evil practices connected with promotion of new concerns and management of existing ones is an urgent necessity. Defects in the present working of the control of Capital Issues is another direction in which reforms are necessary. War-time purpose of control being no longer necessary Capital Control ought to serve definite peace-time objectives. It presupposes prior decision on kinds of industries to be encouraged and on their geographical distribution. It should also be based on a careful estimate of the annual savings available and how they are to be allotted in different directions according to relative urgencies for new capital. No such broad planning exists today. Piecemeal decisions in some directions have been taken, such as number and location of new factories for manufacture of vegetable products or permitting new textile factories to be set up in deficit provinces. So long as a detailed list of priorities is not worked out by a planning body Capital Control must work haphazardly. Unless the basic purposes are not defined one can only wonder what Capital Control is intended to achieve. It must have a positive value. In its present form the control does not even act negatively in preventing the growth of mushroom companies. Anybody who can make out a plausible case can get permission for issue of capital. Mushroom companies are known by their results and cannot be determined at the start. Nor are applications scrutinised with a thoroughness and insight which can deter the unscrupulous from seeking permission. Neither the

amount of capital nor the form of issue nor the other details connected with the issue are investigated in an efficient manner. No expert reports about the workability of the schemes are asked for or investigated. Cases are not unknown where same concerns have gone on successfully asking for more and more capital even though funds obtained through previous issue have remained unutilised and plans for the use of such funds almost non-existant. Anybody with sufficient prestige and influence can obtain permission for capital issue. Last but not the least are the defects inseparable from all bureaucratic controls, *viz.*, long delays, inefficiency and corruption.

The control of Capital Issues has suffered partly by not being part of a wider integrated economic policy and partly by not carrying out its limited functions with any live sense.

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WARTIME TRENDS IN INDIA'S PUBLIC FINANCE

By

P. J. J. Pinto

Fiscal policy with the changing role of government has increasingly tended to become a regulator of the national income and its distribution. This is even truer of wartime fiscal policy when a transference of resources from peace-time uses and civilian needs to the requirements of defence and military strategy has to be effected. In India, as elsewhere, public expenditure during the war reached unprecedented levels which called for a severe "tightening up of the belt" by taxation and for public borrowing on an extensive scale. When taxation and borrowing from the public proved inadequate, inflation or "forced saving" ensued, which in turn had its repercussions on public expenditure and set up a vicious spiral affecting the whole economy.

Public expenditure, then, is the starting point of any analysis of wartime trends in India's public finance. Two phases, differentiated roughly by Japan's entry into the war are discernible in the seven-year period 1939-40 to 1945-46. In the first phase expenditure rose gradually from Rs. 95 crores in 1939-40 to Rs. 147 crores in 1941-42; expenditure in the pre-war year 1938-39 was Rs. 85 crores. 1942-43 marks the beginning of the second phase, with expenditure mounting rapidly from Rs. 289 crores in that year to Rs. 506 crores in 1945-46. The same trend is noticeable when total budgetary expenditure (including capital expenditure) is divided into civil and defence. Civil expenditure for 1939-40 was Rs. 45 crores; it actually declined to Rs. 41 crores in 1940-41, then rose to Rs. 43 crores in 1941-42. But in the second phase it jumped ever higher to Rs. 74 crores in 1942-43, Rs. 83 crores in 1943-44, Rs. 101 crores in 1944-45 and Rs. 129 crores in 1945-46; and these spurts occurred in spite of attempts to hold down civil expenditure. Defence expenditure (in-

cluding expenditure on capital account) doubled gradually from Rs. 50 crores in 1939-40 to Rs. 104 crores in 1941-42; in the next two years it mounted rapidly, reaching the peak of Rs. 458 crores in 1944-45 (a nine-fold increase over 1939-40) and then eased slightly to Rs. 391 crores in 1945-46 owing to the termination of hostilities in August 1945.

These trends were the result of two main factors : (*a*) Japan's entry into the war which resulted in defence expenditure, responsible for over three-fourths of the budget on revenue account, soaring to record levels and multiplied the burdens of the war, already heavy on a country with no margin to spare even in peace-time ; and (*b*) the gathering momentum of inflationary pressures as the war progressed, which affected the entire economy and in particular the distribution of the national income.

Civil and war expenditure on India's own account does not exhaust public expenditure in India during the war. There was the very considerable extra-budgetary war expenditure on behalf of the Allied Governments which was recoverable from the United Kingdom. This recoverable war expenditure amounted to Rs. 1,712 crores over the whole period and was very nearly equal to the budgeted expenditure on defence. It increased from Rs. 4 crores in 1939-40 to Rs. 53 crores in 1940-41. In the two following years it jumped successively to Rs. 194 crores and Rs. 326 crores, but for the next two years it showed a relatively smaller increase, being Rs. 378 crores in 1943-44 and Rs. 411 crores in 1944-45, and then declined to Rs. 347 crores in 1945-46. After 1941-42 defence expenditure on India's own account outstripped the recoverable war expenditure, showing that hostilities with the Japanese resulted in a very considerable increase of the war burdens borne by India.

The financing of the recoverable war expenditure was through an expansion of rupee currency against sterling assets that accumulated either because of this recoverable war expenditure or a favourable balance of trade. A part of these assets was utilised for the repayment and repatriation of our

sterling debt which consequently was reduced to a nominal Rs. 35 crores at the end of March 1943 as against Rs. 465 crores at the end of March 1939. From 1941-42 recoverable war expenditure and budgetary deficits increased rapidly; so did inflationary pressures. The total money supply, for example, increased fourfold from about Rs. 500 crores in December 1939 to about Rs. 2,000 crores in December 1945. An earlier introduction of price control combined with rationing would have mitigated the effects of inflation on the lower income groups, but wartime inflation was inevitable and represented the "forced saving" necessary to finance the war. The total public expenditure, budgetary and extra-budgetary, was of the order of Rs. 600 crores in 1942-43, Rs. 700 crores in 1943-44, Rs. 900 crores in 1944-45 and Rs. 850 crores in 1945-46 as against Rs. 85 crores in 1938-39. This gives a general idea of the phenomenal demand on India's resources for the prosecution of the war and the consequent diminution of the national income left over for civilian consumption.

There were thus two problems facing fiscal policy: (*a*) to bridge the budgetary gap and (*b*) to narrow the inflationary gap and mitigate inflationary pressures. The two methods available are taxation and public borrowing. This leads us therefore to a consideration (*a*) of wartime revenues and in particular of tax policy and (*b*) of borrowing and debt policy.

With the increase in expenditure the budgetary gap widened. Inflation, however, which pushed up prices also swelled money incomes and profits, though in a very inequitable manner. So while increased prices made for, in part at least, larger expenditures both civil and defence, increased incomes and profits brought in higher revenues than formerly.

Non-tax revenues touched unprecedented levels and helped considerably to minimise the budgetary gap. Railways and Posts and Telegraphs which in 1938-39 had contributed Rs. 1½ crores and Rs. ¼ crore respectively multiplied those contributions several times, so that in 1943-44 they were

at Rs. 38 crores and Rs. 9 crores, in 1944-45 at Rs. 32 crores and Rs. 10 crores and in 1945-46 at Rs. 32 crores and Rs. 11 crores. The profits of the mint and the surplus profits of the Reserve Bank surrendered to the Government rose rapidly and continuously from Rs. $\frac{1}{2}$ crore in 1938-39 to Rs. 10 crores in 1943-44, Rs. 13 crores in 1944-45 and Rs. 17 crores in 1945-46. The percentage of non-tax revenues to total revenue rose from about 10 per cent before the war to about 20 per cent in the years 1943-44 to 1945-46.

The tightening up of the belt took place through taxation and everybody was expected to pay up and smile. The need for increased taxation was enhanced by the decline in customs revenue from its pre-war place of importance when it accounted for 53 per cent of total tax revenue and 47 per cent of total revenue. This situation resulted from wartime restrictions on trading and towards the end of the war from transport bottlenecks and physical shortages abroad. In 1942-43 customs revenue amounted to Rs. 25 crores as against Rs. 41 crores in 1938-39; but it rose thereafter to Rs. 40 crores in 1944-45 and Rs. 65 crores in 1945-46, accounting roughly for 15 per cent and 20 per cent respectively of the total tax revenues in these two years. Corporation and income-taxes were raised substantially ; for a time even the exemption limit for income tax was reduced from Rs. 2,000 to Rs. 1,500. But the most fruitful source of revenue, owing to the enormous growth in wartime profits following the inflationary rise in prices, and one most easily justified was the excess profits tax, first levied in 1940-41 at 50 per cent and from the following year at $66\frac{2}{3}$ per cent. Of the revenues under corporation taxes about 70 per cent for the year 1942-43 and about 80 per cent for each of the three years 1943-44 to 1945-46 were from the excess profits tax levied on corporations. On the other hand, of the collections under income taxes (other than corporation taxes) during 1942-43 the portion attributable to the excess profits tax was negligible but for the three years 1943-44 to 1945-46 it varied from 15 per cent to 25 per cent. The enormous increase under taxes on personal and business incomes is a distinctive feature of wartime tax policy and they accounted for over 50 per cent of the total

tax revenue, reaching the peak of 68 per cent in 1944-45. In 1945-46 even with the rise in customs revenue they accounted for as much as 60 per cent.

The other taxes which increased during the war were excises, on account of both the enhancement of existing rates on articles like motor spirit, kerosene, sugar and matches and the imposition of duties on other articles such as tobacco, vegetable products, betelnuts, coffee and tea. Excise revenue rose from Rs. 9 crores in 1938-39 to Rs. 13 crores 1942-43; thereafter the increases were rapid to Rs. 27 crores in 1943-44, Rs. 38 crores in 1944-45 and Rs. 47 crores in 1945-46. These taxes were favoured not only because they were revenue-producing but also as an anti-inflationary measure.

In spite of high taxation on business and upper personal income brackets, the result of wartime policy was to put a severe strain on lower income groups, among whom perhaps the landless labourers and the middle class fixed income earners were the hardest hit. As a result of the war taxation would seem to have become more regressive than before—a feature associated with severe inflations.

Notwithstanding the rapid increase of both tax and non-tax revenues the deficits were of a considerable magnitude rising from 7 crores in 1940-41 to Rs. 13 crores in 1941-42, then shooting up to Rs. 112 crores in 1942-43 and Rs. 190 crores in 1943-44. In 1944-45 and 1945-46 the deficits declined to Rs. 161 crores and Rs. 145 crores respectively. These deficits along with the recoverable war expenditure contributed to inflationary gap. In addition the favourable trade balances by increasing the sterling assets also led to an exhaustion of rupee currency. When the possibilities of taxation to fight inflationary trends have been explored, the other method is borrowing.

Budget deficits as well as recoverable war expenditure assumed enormous proportions after 1941-42. Rapid inflation also dates from that year. But political conditions did not permit of a recourse to a policy of extensive public borrow-

ing till much after 1942-43. Also the first years of war saw the repatriation and virtual extinction of sterling debt. At the end of March 1939 there were Rs. 465 crores of sterling obligations outstanding. By the end of March 1943 they had been reduced to Rs. 51 crores and at the end of March 1946 to Rs. 34 crores. This repatriation was financed partly by the issue of rupee counterparts, which meant an addition to rupee loans outstanding ; partly by *ad hoc* treasury bills and ways and means advances from the Reserve Bank which led to the phenomenal increase of this form of debt to Rs. 265 crores at the end of March 1943 as against Rs. 46 crores at the end of March 1939 ; and to a limited extent from Government's own balances. Over a third of the repatriated debt was cancelled either immediately on repatriation or a little later by the cancellation of rupee counterparts. By 1943-44 sterling debt ceased to be a problem for India ; instead another problem of sterling assets was springing up and inflationary pressures were increasing with the expansion of rupee currency year after year.

Rupee loans increased from Rs. 438 crores at the end of 1938-39 to Rs. 612 crores at the end of 1941-42. Thereafter the increase was rapid through Rs. 749 crores (March 1943), Rs. 1,067 crores (March 1944) and Rs. 1,212 crores (March 1945) to Rs. 1,489 crores (March 1946). In the last two years, the effective rates of interest were successfully reduced to lower and lower levels. It might be said that World War II was fought by India on a 3 per cent basis. Another item of borrowings that showed a decline in the earlier years of war was small savings. At the end of March 1939 they stood at Rs. 142 crores, at the end of March 1943 at Rs. 93 crores. But in the next three years they rose rapidly to Rs. 119 crores (March 1944), Rs. 159 crores (March 1945) and Rs. 220 crores (March 1946). The total borrowing was far in excess of the budgetary deficits and was increasingly resorted to as an anti-inflationary measure, specially in the three years 1943-44 to 1945-46. This resulted in a piling up of Government balances at the Reserve Bank which rose from about Rs. 17 crores in March 1938 to Rs. 84 crores in March 1944, Rs. 269 crores in March 1945 and Rs. 527 crores in March

1946. These balances were swelled in part by various compulsory deposits under the excess profits tax and the income-tax and collections under the "pay-as-you-earn" scheme, all of which were in the nature of compulsory borrowing to drain off surplus purchasing power and relieve inflationary pressure.

The total debt of the Central Government rose very slightly in the four years 1939-40 to 1942-43—from Rs. 1,206 crores in March 1939 to Rs. 1,353 crores in March 1943, and very rapidly in the next three years—to Rs. 1,533 crores in March1944, Rs. 1,860 crores in March 1945 and Rs. 2,230 crores in March 1946. At the end of 1945-46 two-thirds of the total debt was in rupee loans and a tenth in the form of small savings. Treasury bills outstanding were at Rs. 87 crores.

The war period, then, was one of inflationary finance caused by a phenomenal increase in war expenditure. With the cessation of hostilities this expenditure was expected to drop by Rs. 550 crores. The onset of deflationary tendencies was feared ; and the tax policy was directed to granting concessions to lower income groups and specially to industry by the abolition of the excess profits tax and the reduction in corporation taxes. But inflationary forces have proved both strong and persistent. The budget for the current year has therefore been framed to hold these forces in check, although the possibility of a recession later in the year is not ruled out. Hence a business profits tax, a modified form of the excess profits tax, has been introduced, corporation taxes have been increased and a tax on capital gains is contemplated. Social justice has also been explicitly made an objective of budgetary policy. To this end the income tax exemption limit hasbeen raised from Rs. 2,000 to Rs. 2,500 and the salt tax has been abolished ; at the same time income taxes have been steepened so that maximum rates apply to higher income brackets at a lower level than previously.

India's fiscal and monetary problems for the next few years are inevitably linked to larger economic and extra-economic issues, and hence the contribution of the present budgetary policy to a solution of those problems is, because of prevalent conditions, severely restricted.

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V—MISCELLANEOUS

THE PEOPLE'S RAILWAYS

By

J. E. CASTELLINO

Over 40,000 miles of vital communications—maintained by us; over 800 crores of rupees—invested by us; over 962,000 men—serving with us; over 40 crores of rupees—spent by us on purchases of stores; over 7,000 stations—manned by us; over 8,900 locomotives, 17,000 carriages and 229,000 wagons—run by us—these constitute our railways. Do we realise the tremendous implications of these figures?

There is another way of looking at this matter. The luscious liches of Darjeeling titilate the appetite of people in Bombay; the gorgeous grapes of Quetta satisfy the thirst of Madras; the subtle silks of Dacca intrigue the hearts of Mayfair damsels; the brilliant brasswares of Moradabad adorn the mantlepieces of the world; the vitalising wheat of the Punjab builds soldiers in all provinces; the cheap cloth from Bombay covers the bodies of India's millions; the "black diamonds" from Bengal keep our industries in steam throughout the country—all and only because of our railways.

India is now on threshold of greatness. Politically, the people are coming into their inheritance; socially, there is an inspiring awakening and a demand for better living; economically, industrialisation and self-sufficiency are the objectives. None of these ideals can be realised without an efficient railway system. The services which railways can render in annihilating distances, in preventing famines, in facilitating commerce, in fostering industries, in eradicating social prejudices, in assisting the administration of government—these services are incalculable in their worth.

Tribute must therefore be paid to the wide vision and the rugged faith, the infinite patience and dogged perseverance of the men who boldly flung bridges across rivers and courage-

ously carved tunnels out of hills, in order to link up the vastly separated areas in this huge sub-continent. Originally, when the introduction into India of the newly developed form of transport was discussed, the wisdom of the idea was seriously in doubt. Inertia is one of the most potent enemies of progress, and the traditional manner of transport had the sanction of usage and the authority of safety. It was feared that the "Iron Horse" would not attract the stolid old-fashioned villager.

There is peace in the picture of a farmer ploughing homeward his weary way. There is poetry in the swaying of the years of corn, ripening in the sun. There is music in the tinkle of the bells round the bullock and in the creak of the cart winding leisurely along the dusty road. There is romance in the flowing sails of a craft, lazily drifting down the river. There is beauty in the flight of a sea-gull, pictures quely progressing in the air. There is majesty in the elephant, splendour in the horse, colour in the palanquin. That was yesterday, the day of unending leisure when the tempo of life was slow, sedate and stately. The needs of today can only be met by fast and efficient transport.

There can be little doubt that our railways are catering adequately for the wants of the people. Year in, year out, over the 40,000 miles of railway lines, over a million tons of goods are transported. Last year 924 millions found pleasure in annihilating distances and renewing contacts by travelling on Indian railways. At 7,198 stations which dot the country, protection from the scorching heat of the tropical sun and shelter from the torrential monsoon is provided : in fact, a railway station in this country is a centre of social and economic activity. Round it, shops grow ; close to it, factories spring up and godowns are planted. Main roads originate or terminate at the stations; buses and lorries start from it. The village children gather around to watch, with fascination, the incoming and outgoing trains. How they would like to wave the green flag and blow the engine whistle ! Truly, a railway station is the hub of village activity, and the railway official has an enviable role to play in the life of the country.

But his importance arises not only as an employee of the State. Along with the rest of his countrymen, he is shareholder in the vast property. He has invested, in partnership with his fellow beings, a sum of Rs. 800 crores in building, equipping and running this transport system. It is the largest industrial enterprise of the nation, overshadowing completely all capital investment in all the basic industries in the country. Its success—or failure—is a matter of consequence to him. And the measure of his efficiency and his interest in this community-owned and publicly-managed enterprise is a token of his appreciation of his own self-interest, and of his desire to help his countrymen. One in every 400 persons in India is a railway-man; one in every 100 of India's 400 millions looks to the railways for his living.

Many important considerations proceed from the fact that the railways of India represent such a large capital investment and are owned and managed by the people. The transfer of control from the Secretariat to the Legislature led to a gradual re-orientation of policy on various matters, notably in respect to Indianisation of the service, purchase of Indian stores, and help and protection to indigenous industries. A resolution, adopted in 1915, to the effect that patronage of Indian industries would be accorded in the purchase of materials for the various departments of Government was claimed to have been honoured more in its breach than in its observance. Outraged public opinion and progressive industrialisation, combined with the difficulties of procuring supplies during the Great War, brought fulfilment of the pious wish, and the Indian Stores Department was created to rationalise purchases and to encourage domestic production. Further in 1929, the Government of India expressed by a Resolution their intention of encouraging the development of industries to the utmost possible extent, consistent with economy and efficiency. An order of preference has been prescribed and even a little price-discrimination is allowed. Articles produced wholly in India are to receive first preference; next in order come goods partly manufactured in India, articles held in stock in India, and lastly, articles required to be imported.

There is no doubt that Railways exercise a very important influence on the economy of the country. Quite a few of the largest industries are solely dependent on our railways for their prosperity; in some cases, their very existence is linked with railways. The iron and steel industry obtains sustenance in two ways: a large part of the plant is devoted to the manufacture of permanent way materials and structural steel required by our railways, and almost every ton of its products moves at specially quoted freight rates. What is the position in respect of coal? There is no country in the world which carries a maund of coal for 500 miles at the infinitesimal charge of 48 pies! And of all the coal mined in this country, more than 50 per cent is consumed by railways! But for the direct assistance rendered by railways in the shape of concessional freight rates, the development of sugar, glass, paper, cement and the heavy chemical industries would never have taken place; today, each of them is flourishing, and in addition to helping in the alleviation of the pressure on land, is a token of India's industrial strength and economic stability.

In this context, the demand for a full exercise of control by the Legislature acquires a new meaning. The railways are a powerful instrument which can be used to further any set policy. In the chain of production, distribution and exchange, transport provides an essential link. Raw materials to factories, finished products to shops, workers to their employment, executives to their meetings, children to their schools, all the world to their homes, their playing-fields and recreational parks, their places of worship and pilgrimage, their centres of study and culture: these form the functions of the railways. To this purpose, the railways are pledged. After all, they belong to the people of India. They are manned almost wholly by Indian personnel. And their policy is shaped by the representatives of the country.

For transport, there are many symbols of progress. There is speed—for faster tempo of life; there is availability—for prompter response to varying needs; there is power—for greater capacity; there is economy—for cheaper satisfaction of demands; there is safety—for freedom from fear; there is profit—for

social gain; and there is service—for better living. To the people's railways, these symbols represent both a fulfilment and a challenge !

Do the people of India want freedom of association? Are they desirous of freedom from restraint? Is there need for freedom of trade? And do they long for freedom from the shackles of time and space? All these freedoms are provided by railways—our railways, built with the toil, sweat and tears of the sons of the soil; equipped out of the hard-earned savings of our people; maintained and serviced by men steeped in Indian traditions; representing "a series of public monuments vastly surpassing in real grandeur the aquaducts of Rome, the pyramids of Egypt, the great wall of China, the temples, palaces and mausoleums of the Great Moguls, monuments not merely of intelligence and power but of utility and beneficence"; belonging solely to the peoples of India !

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THE SYSTEM OF COTTON FUTURES IN INDIA

By

H. L. Dholakia

I

Introduction—At a conference called by the Government of Bombay in February 1942, of the various interests connected with the cotton trade in India it was unanimously decided that the then existing system of cotton futures in Bombay should be so modified and altered as to meet the exigencies of the total war and that the new system should be so devised as to facilitate the smooth functioning of all the channels for the duration of the war. A sub-committee representing all the sections of the trade was then appointed for this purpose. The conference and the committee agreed that "the new system which might be devised should take cognisance of the prevailing war situation and therefore such a system must remain in force only for the period of the war and sometime thereafter, after which the trade should be invited to revise the system under the conditions then prevailing."[1] After considering all the points, the revised scheme of a single hedge contract commonly called "the Indian Cotton Contract" or better known in the business parlance as "the Jarilla Contract" was finally adopted by the trade in the middle of July 1942.

Now the war is over. A fairly reasonable time thereafter has also lapsed. Hence, the pledge of revising the system of cotton futures is due to be executed by the authorities concerned. No doubt, the cotton grower, the trader and the manufacturer would not like now to put up with the war-time measure and continue to carry on with the existing system. What they would welcome is a sound scheme of futures designed to meet their normal requirements. Thus the issue

1 Report of the Hedge Contract Sub-Committee of the E.I.C.A.—May, 1942.

with which the various cotton interests in India are confronted at present is the thorny question of devising a thoroughly comprehensive and most scientific system of cotton futures for all the principal varieties of Indian cotton. Though it is an embarrassing problem, it must be borne in mind that the new structure of the system should be so constructed as to neither jeopardise the interests of the buyer and the manufacturer nor those of the seller and the grower of our cotton. In order to be able to arrive at a correct and concrete solution on these lines it is necessary for us to get first of all a bird's eye-view of the system as it has existed so long.

II

System of Seven Contracts—During the period of the World War No. 1 and for sometime thereafter there were a fairly large number of hedge contracts representing various principal varieties of cotton produced in India. These contracts were availed of for speculating in cotton or for effecting delivery by merchants whenever it was advantageous to do so. The theory of futures that a hedge contract is essentially an instrument of insurance and should be so worked as to discourage the acquisition or disposal of the commodity through its medium was not acknowledged in practice. The result was a total misapprehension and misgivings about this system. The general chaos in the futures market for Indian cotton was the order of the day. The word "hedge" used in this connection was rather a misleading term. Failure to observe the fundamental principle of "hedge" contract encouraged manipulators to turn it into a delivery contract. The resultant dislocation of the futures market tended to affect adversely the best and long-lasting interests of all concerned. The year 1917, when the Indian cotton futures market was involved in a crisis, may be cited as a case in point. In June 1918, under the Defence of India rules, the Cotton Contracts Control Committee was appointed by the Government of India to control the cotton trade in Bombay. This Committee recognised five contracts for the purpose of trading in five principal varieties grown in India. These contracts were (1) Fully Good Machine-ginned Bengals for 25th January de-

livery, (2) Fully Good Machine-ginned Khandesh for 25th January delivery, (3) Fine Khamgaon Akola fair staple for 25th January delivery, (4) Fine or Good Machine-ginned Broach for 25th April delivery, and (5) Good Machine-ginned Westerns for 25th May delivery. But as the committee was constituted as a temporary measure, the control of dealings in cotton later on passed into the hands of the Bombay Cotton Contracts Board[1]. The Board followed in the beginning the rules previously laid down in connection with hedge contracts and a little later, went a step further by making the addition of two more contracts; *viz.*, the Punjab-American and Oomras. This brought the number of contracts to seven. Certain omissions and modifications were also carried out by the Board with changes in names and basis as under: (1) F. G. Bengals, (2) F. G. Broach, (3) Fine Oomra, (4) F. G. Oomra, (5) Good Southerns, (6) Punjab-American and (7) F. G. Khandesh. It may be observed that in absence of any clear conception of the theory of hedging and of the recognition and acceptance in practice of the fact that a hedge contract should be sufficiently balanced to afford an equal measure of protection and opportunity to both the buyer and the seller, these contracts were wrongly regarded as hedge contracts. In fact, they were no better than the usual delivery contracts of today.

III

System of Five Contracts—The Cotton Contracts Board as a central body controlled the trade for more than three years from January 1919 to May 1922. Then it handed over the charge to the newly constituted central body known as the "East India Cotton Association" under the Act of 1922.[2] This Association realised the futility of a large number of contracts for trading in Indian cotton and according to their own conception tried to reduce the number to a convenient and practicable number. The seven contracts were amalgamated into five by incorporating the Punjab-American into Broach hedge contract and dropping altogether the Khandesh

1 The Bombay Cotton Contracts Control (War Provision) Act 1919.
2 The Bombay Cotton Contracts Act No. XIV of 1922.

contract. Certain other innovations were also carried out, *e.g.*, extending the periods of delivery and allowing the grades above and below to be tendered with probable "ons" and "offs" for respective classes. Furthermore, standards were prescribed for both grade and staple, though there was no stipulation for better staple length. The five permissible contracts were : (1) F. G. M. G. Bengal, (2) F. G. M. G. Broach, (3) Fine M. G. Oomra (4) F. G. M. G. Oomra, and (5) Good M. G. Southerns. So far as the cotton speculator was concerned, the Broach contract proved greatly successful. But the interests of the cotton trade and industry began to suffer, because the Broach contract had to bear the three-fold burden of the crop, the hedging and speculation. In course of time, the genuine seller and the buyer, or to be more exact the grower and the spinner, began to feel the pinch of the defective technique of the system of hedging. A note of caution was sounded by persons whose interests were at stake. Sometimes a huge cry for reforming the individual contract and for the revision of the entire system was raised from a number of quarters.

The chief among those who believed themselves to be the aggrieved parties was the Bombay Millowners' Association. Not feeling satisfied with the merger of seven contracts into five, they demanded a further reduction in the number of hedge contracts to three. In order to give a practical turn to what was wanted by them, they adumbrated another scheme in 1924. They suggested that the F.G.M.G. Bengal contract should be retained, but the present F.G.M.G. Broach and the good M. G. Southerns contracts should be amalgamated into one. The staple besides must be specially determined for each growth and no cotton below 6/8″ staple should be tenderable under this contract. The Moglai cotton coming from the Nizam's State should be included in the amalgamated contract, provided it was not below 6/8″ in staple. No cotton under "Good" be made tenderable against the same. It was also said that the present Fine and F. G. Oomra contracts should be amalgamated into one, provided that only Fully Good to fine Cottons be tenderable from the beginning of the year until the end of May and

after that time only Good to Fully Good should be allowed to be so tendered. Cotton known as Gaorani cotton from the Nizam's State be made tenderable against the same. Staple was to be not less than $\frac{1}{2}''$. The scheme, however, did not meet with the approval of the cotton trade, for, one section termed it as a "bearish" plan while the other discarded it as the most inconsistent and incomprehensive notion. It was, perhaps rightly, turned down by the East India Cotton Association in search for a better planned and well-conceived system for Indian cotton.

A year later in 1925, another scheme was brought to the notice of the E. I. C. A. for their consideration and approval. This was the proposal put forward by Forbes Forbes Campbell & Co., Ltd. The adoption of the following four contracts for the purpose of hedging in Indian cotton was advocated in the scheme: (1) F. G. M. G. Bengal was to be as at present, (2) F. G. M. G. Broach was to be retained as at present with option of tendering Fine C. P. No. 1, Tinnevellies, Karungannis and Cambodia. Delivery months: March-April, June and August. (3) Fine Oomra should be as at present with the addition of all stations of F. G. Oomra contract and Jalna and with the option of tendering any cotton tenderable against the Broach contract. Under it cotton tendered from January to May if awarded more than half a class off Fine was to be rejected. Cotton tendered from July to September if awarded more than full class off Fine was to be similarly made unacceptable, (4) Good M. G. Southerns was to be as at present but with the option of tendering any cotton tenderable against Navsari, Surat, Rajpipla and Punjab-American standards. Delivery months were to be May, July, August and September. The E. I. C. A. could not find anything worth noting in this proposal as the plan had nothing tangible to offer except the half-hearted attempt at further amalgamation of contracts. It did not consider whether it would be advisable to include the growth of one contract into the other and still to run the market without being unduly hampered or disturbed. Moreover, like the Millowners' Scheme, this did not take into account the basic point of futures that a hedge contract should represent a fairly close relation to the actual

values of cotton. If contracts were to be amalgamated in the manner suggested above, it would mean a suicidal step with the result that contracts might be totally neglected by the trade or they might remain permanently depressed. Hence, the trade in general showed its reluctance to adopt this plan.

Then in 1928, late I. I. Mashruwalla advanced the following plan of four contracts for the betterment of the system : (1) F. G. M. G. Bengal to be retained as it is, (2) F. G. M. G. Broach should include Nizamabad and Warangal, White Northern and C. P. (including Harda and Bhopal) half grade off only. Delivery months to be March/April, May, June/July, August and September. Staple to be not less than $\frac{3}{4}''$. If cotton of more than Rs. 100 per candy is tendered, the buyer shall get from the seller a penalty of $\frac{1}{2}$ of all "ons" over Rs. 100 for taking up very high cotton, (3) Fine M. G. Oomra should include Khandesh, Moglai (Hyderabad North of Latur and Karkali Oomra) and Mathia with half a class "off" from November to June and from July to October up to full grade "off". Cotton more than $1\frac{1}{2}$ grade "off" or "on" if tendered will be subject to a penalty of Rs. 25 per candy to buyers from sellers, (4) F. G. M. G. Southerns should include Dholhra, Kadi-Viramgaum, Kalagin, Cutch, Nanded and Latur, and Ujjain. Months of delivery were to be February/March, April, May/June, July/August and September/October (either single or double, though double would be preferable). Staple was to be $\frac{3}{4}''$ and $\frac{7}{8}''$. Tenders under $\frac{3}{4}''$ were to be rejected but tenders above $1\frac{1}{8}''$ might be rejected or a penalty of Rs. 25 per candy might be claimed by the buyer. This scheme too failed to satisfy the aspirations of the cotton trade and the E. I. C. A. had to reject it. The scheme was found lacking in foresight since it did not take into account one of the main principles of a hedge contract that there should be adequate safeguards to protect the market against manipulations, especially against the bear speculative raids. Had recognition been given to this scheme, it would have encouraged and accentuated the most undesirable type of manipulation on the market. Taking all the three schemes from 1924 to 1928, we find that none of them was adoptable by the trade. It would not be an exaggeration if it is said

that by the acceptance of any one of these plans, our cotton would have been the cheapest commodity available both in India and in the world and the party receiving the blow would have been the Indian farmer.

IV

System of Three Contracts—The rejection of the above schemes did not, however, solve the main problem of the cotton trade. This problem was the devising of a sound hedge contract system for Indian cotton. Though sometimes a slight and at others furious agitation was in evidence against the defective technique of the hedge contract in Bombay, the Indian cotton world had to put up with the situation as it was in absence of any better device. Only in 1930, at the instance of the trade, the Government of Bombay appointed a committee to make recommendations for the betterment of the cotton trade after consulting the various interests. The committee proposed *inter alia* to retain the Broach contract as it was with the addition of the Kumpta and Upland growths of the Dharwar district and to leave the existing two contracts in Fine Oomra and Bengal untouched.[1] This proposal failed to put an end to the ailment of the trade since no real adjustments were to be made in the then existing contracts. On the other hand, of the five hedge contracts, the last two contracts had not been popular in Bombay. In fact although there have been five contracts, trading used to take place only in the first three and the last two were virtually dead because they were neither active nor quoted upon. The popular contracts were therefore only three in number. They were Broach, Oomra and Bengal. The concentration of trading under them was respectively 75 to 80%, 12 to 15% and 4 to 6%. But the trade wanted some permanent solution of their troubles. Hence, the E.I.C.A., at last constituted a hedge contract sub-committee of its own in 1935 to examine the system and suggest improvements in the framing of the revised hedge contracts. Their recommendations were as under : (1) The basis of F. G. Bengal hedge contract should be changed from "F. G. U. P."

1 Report of the Wiles Committee, 1931, p. 7.

to"F. G. Punjab" and the months of delivery for this contract should be December, January, February, March, April, May, June, July, August and September, (2) Punjab-American and saw-ginned Dharwar cottons be excluded from the Broach hedge contract. White Upland cotton be excluded from Southerns hedge contract and included in the Broach, subject to the stipulation that the staple of such cotton to be made tenderable shall not be less than $\frac{6}{8}''$ n length. C. P. No. 1 should not be included in the Broach variety. Surat, Navsari and Rajpipla cotton might be made tenderable throughout all months of delivery. The months of delivery for Broach contract be prescribed as April, May, June, July, August and September, (3) In the Fine Oomra contract, C. P. No. 1, C. I. cotton grown in Khandwa, Sanewad and Barwaha and such other places as the Board may determine should be made tenderable. The staple length of the cotton tenderable against this contract be prescribed at $\frac{9}{16}''$ in order to prevent the spread of Garrow Hill seed in the Oomra crop, (4) The existing Southerns contract be scrapped and that in its place a new staple contract to be styled "Coomptah contract" should be evolved. Against this, cotton with a staple of not less than $\frac{7}{8}''$ in length should be made tenderable with Coomptahs of not less than $\frac{7}{8}''$ staple as the basis. No Upland cotton from any station should be made tenderable against this new contract, nor Tinnevellies, Bijapur, and Bagalkote be included in it. The months of delivery for this be prescribed as May, June, July, August and September. Somehow or other, these recommendations were not given a trial by the trade. Their consideration was postponed and in the meantime Messrs. Kishan Prasad and J. Voneseh were asked in 1936 to report on the proposed alteration of the contracts. They submitted that the following hedge contracts be substituted for the then existing ones : (1) F. G. M. G. Bengal contract with F. G. Punjab as basis. Mathia box to be raised by one class. Trading months to be December/January, March, May, July and September (2) Fine M. G. Oomra contract with Fine Berars as basis. Khandesh, Moglais and Broach should be included in it. Trading months were to be as in contract (1) with rejection clause to be for July to September delivery one class off, (3)

F. G. Broach contract, with F. G. Punjab-American as basis. The descriptions tenderable should be all Surati with $\frac{7}{8}''$, Dholleras $\frac{3}{4}''$, Kadi-Viramgaum $\frac{3}{4}''$, Kalajin $\frac{7}{8}''$, Sind-Punjab-American 4F $\frac{3}{4}''$, Coomptahs $\frac{7}{8}''$, Western and Northern Farm $\frac{7}{8}''$, Cambodia $\frac{7}{8}''$, Korunganni $\frac{7}{8}''$, Malwa $\frac{7}{8}''$, Verum $\frac{7}{8}''$, Ordinary Western $\frac{3}{4}''$, Bijapur-Bagalkot $\frac{3}{4}''$, Miraj $\frac{7}{8}''$ and Tinnevellies $\frac{3}{4}''$. Standards should be prepared for F. G. Malwa, Verum and Western and Northern Farm. Trading months, should be the same as for contract Numbers (1) and (2). Nothing below one class off should be allowed to be tendered. The report prepared by these outstanding personalities of the cotton trade deserved high consideration. Their recommendations were really immune from general misgivings and unwanted criticism. Their suggestions were quite practical and beyond theoretical short-comings. One fails to understand why this report was not implemented. In 1938, it was unanimously recognised by the E. I. C. A.[1] that "the question of the existing hedge contracts require adjustments."

A year later in 1939, the Universal Standards Sub-Committee also made general recommendations for the *ad hoc* revision of the hedge contracts, particularly in regard to the staple lengths to be prescribed for each contract. But the year 1939-40 as we all know today was the year of abnormal times due to the last war. The Board nevertheless tried to give due consideration to the question of the revision of contracts by appointing another sub-committee in 1939-40 to submit their proposals in due course. At the same time the E. I. C. A. gave expression to the view that "it is not possible to frame one contract which can carry the whole burden of the Indian cotton crop.[2] After fully considering all the phases of the question and weighing all the probable pros and cons, the present writer came to the conclusion in 1942 that "if the system of hedge contracts is to discharge its functions properly the existing hedge contracts in Bombay should be reconstructed. The revision of the present system

1 18th Annual Report of the E. I. C. A. for the year 1938-39.
2 19th Annual Report of the E. I. C. A. for the year 1939-40.

will have to be thorough in all its aspects."[1] Three hedge contracts covering all the main varieties of Indian cotton as suggested by us were : (1) F. G. Bengal contract with the addition of Kathiawar-Muthia cotton. Basis for Muthia should be Fine. The seller should be given the option of delivery at Karachi. Months of delivery should be single as December, January, March, May and July, (2) F. G. Broach contract, with the amalgamation of Southerns except the Surat, Navsari, Cambodia and Kurunganni should be retained as it is, provided no cotton below $\frac{3}{4}''$ staple is made tenderable. Delivery should be in single months as March, May, July and August. (3) Fine Oomra contract should include Khandwa-Burhanpur and Khandesh cotton. Delivery months should be single as December, January, March, May and July. On account of the war this scheme could not receive or command the required attention of the parties concerned.

V

System of One Contract —Meanwhile in July 1942 the trade adopted a new system for the duration of the war. This was the system of a single hedge contract covering the staple varieties of Indian cotton. As referred to above it is known as "the Indian Cotton Contract". Since 15th July 1942 it is in vogue in Bombay. Let us reproduce here this contract. The basis of the contract is Fine Jarilla, staple $\frac{3}{4}''$ as per standards prepared from Jarilla cotton grown in Khandesh district. Cotton is tenderable up to two classes "on" and one class "off" for grade and up to $\frac{7}{8}''$ staple. "On" and "off" values will be given for grade but for staple only "on" values will be awarded. Other restrictions imposed on tenders of premium as well as discount varieties of cotton against the contract are that tenders of premium cotton should fetch $18\frac{3}{4}\%$ less than the primium fixed for that particular variety as well as staple. Similarly tenders of discount cotton should fetch $18\frac{3}{4}\%$ more discount for variety difference as well as for staple. However, the basic cotton is excluded from this restriction.

1 Futures Trading and Futures Markets in Cotton—H. L. Dholakia, 1942, p. 147.

In other styles, class difference awarded in arbitration is not to be taken into account when calculating this handicap of $18\frac{3}{4}\%$. The descriptions tenderable are : (1) Jarilla—basis—(including Verum, Cambodia, Upland, Gaorani 6 and cottons grown in Khandesh, Berar, Nizam Hyderabad, C.P., Central India, Gwalior and certain Rajputana States,) (2) Broach, Surti (including Navsari) and Rajpipla cottons grown in Gujarat, (3) Punjab and Sind-American styles, roller as well as saw-ginned, from the Punjab and Sind, (4) Dholleras and Kalagin cottons grown in Kathiawar, (5) Cutch cotton grown in the Cutch State. (6) Western, Coompta, Upland, Bagalkot, Bijapur and Miraj cottons grown in the Southern areas. Standards are prepared and maintained separately for class and staple for the following : (a) Jarilla—basis—from Jarilla cotton grown in Khandesh District (Verum, Cambodia, Upland and Gaorani 6 cottons from Jarilla districts to be surveyed against this standard), (b) Broach, (c) Surati (including Navsari), (d) Rajpipla, (e) 4F, LSS, and 289F both Punjab and Sind styles and N. T. roller as well as saw-ginned, (f) Dholleras, (g) Kalagin, (h) Cutch, (i) Upland (Southerns), (j) Coompta (Jowari and Jaywant), (k) Western, (l) Bagalkot, (m) Bijapur, and (n) Miraj. The following boxes are prepared for all these varieties : Extra Superfine, Superfine, Fine (basis), Fully Good and Good to Fully Good (i.e., half a class "off" Fully Good). Standards laid down for staple lengths are : $\frac{3}{4}''$, $\frac{13}{16}$ and $\frac{7}{8}''$. It may be noted in this connection that cotton below the standard "Fully Good" and $\frac{3}{4}''$ staple length is liable to rejection. Months of delivery are all odd and alternate, beginning with January and lasting up to September i.e., January, March, May, July and September. Crop of the current season alone is tenderable. An exception, however, is made in the case of the January delivery in which case "Southerns" of the previous season are tenderable.

VI

Future of the Indian Cotton Contract System—While the Indian cotton contract embodies in it a large number of good points like better basic grade, definite basic staple length, more delivery positions, etc., it is not free from certain loop-

holes and pitfalls, some of which are intrinsically defective basic staple length and faulty system of fixation of differences. Apart from the question of merits and defects of the I. C. C.[1] taking the system as a whole one finds that it is suffering from the lack of comprehensiveness and uniformity. The Jarilla contract covers at the most about 3 million bales of cotton and provides for edging facilities only to the staple varieties produced in our country. The result of its working is that the rest of the descriptions cultivated in India are neglected since the system does not make any effort of providing a hedging facility about them. The cultivators and consumers of these growths suffer in consequence. The alternative before the growers and consumers of those styles which do not find a place in the existing system is either to give up the production and consumption or face the speculative situation. On account of the geographical factors and commerical considerations it is rather difficult, if not impossible, to discontinue the production and consumption of the uncovered varieties. Instead of expecting the producer to switch over to the production of better varieties of cotton and the consumer to resort to substitutes, it is much more desirable and practicable to reorganise the system and make a definite provision in it to cover up and include all the principal varieties of Indian cotton.

Again, on an average India used to produce annually 5 to 6 million bales of cotton right up to 1942. Since then the annual production has gone down to about 4 to 5 million bales. Of these roughly about 3 million bales are covered by the I. C. C. But the question is what about the remaining 1 to 2 million bales? Should they be regarded as "Orphans"? Even the so-called "orphan" cotton can now hope to find the lost outlets in foreign markets. In fact one should not be surprised if in the near future one finds the revival in the production and consumption of those styles. In these circumstances, it becomes imperative to overhaul the existing system by taking cognisance of the rest of the descriptions which are and which will be produced in this country. With

1 For a detailed study refer to "The Hedge contract system for Indian Cotton"—H. L. Dholakia, 1944.

a view to making the system comprehensive and thoroughly scientific scheme it is not only essential and desirable but also in the interest of the trade in general that there should be a system of two futures contracts in Bombay and one in Karachi. They may be styled as (1) staple contract and (2) non-staple contract for Bombay and (3) Sind-Punjab Deshi contract for Karachi. This system would cover and protecta ll the main commercial varieties of cotton produced and marketed in India. Other changes that should be incorporated in the system are (a) to raise the basic staple length of the staple contract from the present level of $\frac{3}{4}''$ to $\frac{7}{8}''$, (b) to adopt the commercial system of fixation of differences, (c) to relieve the trade from war-time provisions and (d) to decontrol the price fluctuations in cotton by throwing off the system of fixation of "floor" and "ceiling" prices. It is needless to say that if these suggestions are carried out the system of cotton futures will tend to work for the benefit of those for whom the futures market in cotton is maintained inasmuch as the staple and non-staple contracts in Bombay will cover all the chief trade varieties. Cotton which used to pass under the name of "Bengal" will be amply provided for in the third contract to be workably only in Karachi. Such a system will then have a reasonably fair chance of becoming permanent and effective in its working to the satisfaction of all concerned with and interested in our cotton.

Of course the difference of opinion as to the number of contracts in a system of cotton futures is bound to prevail as it has been done in the case for the last so many years. But the well-informed and more enlightened section of the commercial community should now come forward and cement this difference once and for all by adopting a system which should go a long way to achieve the largest good of the largest number. We therefore feel that the time has now come when the authorities should not hesitate in giving a proof of their courage of conviction and boldness of action by implementing the required changes in the system at the earliest moment.

VII

Conclusion—To sum up, it may be observed that (1) the system of cotton futures in India has worked on the basis of 7 contracts during the World War No. 1 and on the basis of a single contract during the World War No. 2, (2) in between the two great wars the trade worked on the basis of five and three contracts, (3) for the last 30 years from 1916 to 1946, the method of "trial and error" was followed with the result that the system continued to drift on without arriving at any concrete structure of a scientific scheme of futures, (4) for one reason or another it has not been found possible to render the system free from doubts, suspicions and misgivings till now, (5) the time is now most opportune for reconstructing the entire structure of the system of cotton futures in India, (6) the system should be made perfect in all its aspects and phases so as to embrace all the principal commerical varieties of Indian cotton which would suit the many-sided requirements of all the sections of the trade, etc. and (7) the revised, reorganised and reconstructed system should be able to ultimately stand the test of all fundamental principles of the theory of futures trading in an agricultural commodity like cotton.

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INDO-EUROPEAN COINAGE

By

P. M. JOSHI

Indo-Portuguese Coinage :—The first mint in Portuguese territory in India was opened in 1510 at Goa soon after Albuquerque conquered that port from the Kingdom of Bijapur and here money in gold, silver and copper was forthwith coined.[1] In order to make this new money current in Goa, Albuquerque decreed that "no one should keep any of the coinage of the Muhammadan King in his house, nor make use of it under severe penalties ; but whoever had any should carry it to the mint and get it exchanged for him with that of the King of Portugal."[2] At the same time the Hindu coins in use at Goa were allowed to remain in circulation.[3]

The gold coin minted by Albuquerque was the cruzado, later called the Manoel in honour of Don Manoel (1495-1521) the reigning monarch of Portugal. The weight of this coin was about 53 grains which thus conformed to the Pagoda weight standard. In size also it conformed to the Hindu coin. On the obverse the cruzado had a cross of the order of Christ and on the reverse an armillary sphere, the device of King Manoel. Albuquerque also issued a meio or half Manoel which as its name indicates weighed and was in value equal to half the cruzado. It had the Latin word mea meaning mine and the royal Crown of Portugal on the obverse and an armillary sphere on the reverse.[4] No other gold coins appear to have been struck at the Goa mint during Manoel's reign.

In silver Albuquerque issued a coin called the espera and another a half its value, the maia espera. These coins weighed about 25 and 12 grains respectively and had the same

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1 J. B. B. R. A. S. XIV, 269; Commentaries II, 128-130 ; N. Circ. 1912, 13584, 13865.

2 Commentaries II, 131.

3 J. B. B. R. A. S. XIV, 269, 402.

4 N. Circ. 1912, 13584; J. B. B. R. A. S. XIV, 270.

devices, the cross of the order of Christ on the obverse and an armillary sphere on the reverse.[1] The issue of these silver pieces was suspended in 1519 and no more silver struck in Goa till 1550.[2]

The copper coins struck by Albuquerque were the leals and dinheiros or dinheiros cepaquas as they were finally called.[3] The average weight of a leal was about 126 grains and it had on the obverse a cross of the order of Christ and on the reverse the ever recurring armillary sphere.[4] The dinheiro had a similar reverse but had the arms of the Portuguese King on the obverse. Three of it went to a leal.[5] Below the copper series was a tin coin called roda issued by the Senate or city authorities of Goa soon after the mint of the city started work. This coin had on the obverse a wheel (roda) of St. Catherine, the patron Saint of Goa and on the reverse the coat of arms of Portugal. This fashion of using tin for coins came from the Portuguese far-eastern possession, Malacca, and spread later to other Portuguese mint cities, like Diu and Daman.[6] All the Goa coins, gold, silver and copper, were issued without any mint mark there being at that time no other Portuguese mint in India. A mint mark was probably first introduced after a mint was established at Cochin in 1544 for the issue of copper bazarucco, and in 1568 for the issue of gold and silver pieces. The mint marks subsequently adopted at the Goa mint are, a wheel, GAG, GOA, DGOA, and DEGOA.[7]

Albuquerque's scheme of coinage was avowedly adoptive, there is nothing original either in his weight standard or in his nomenclature. He merely gave old Portuguese names for new coins and for size and weight took for his models the coins he found in circulation in Goa,[8] a procedure similar to that Muhammad bin Sam.

1 Commentaries II, 129 ; J. B. B. R. A. S. XIV, 271 ; N. I. P. 53.
2 N. Circ. 1912, 13865.
3 Commentaries, II, 129-130 ; J. B. B. R. A. S. loc. cit.
4 N. I. P. 53 ; J. B. B. R.A.S. loc. cit.
5 Commentaries, loc. cit ; J. B. B. R. A. S., loc. cit. ; N. I. P. loc. cit.
6 J. B. B. R. A. S. XIV, 407.
7 N. Circ. 1912, 13865.
8 Cf. J. B. B. R. A. S. XIV., 270, 402.

As already noted above, after the conquest of Goa in 1510 gold coins were issued for a short period only. Their minting was then discontinued till 1549. But in the meanwhile St. Thomas had been adopted by the Portuguese as the patron saint for India and his effigy was stamped on the new gold series initiated by governor Garcia de Sa (1548-1549) during the reign of Don João III (1521-1557). This coin was called S. Thomé or St. Thomas. It had the crowned arms of Portugal with Latin abbreviations of the King's name on the obverse and the figure of St. Thomas, standing with letters S and T on each side and the Latin legend "India Tibi Cessit" on the reverse. The weight of the S. Thomé was 193¼ grains. From this time onwards until the closing of the Goa mint in 1869 all gold pieces issued from it were called S. Thomes. On some coins the saint was seated, on others standing and on still others there was only the cross of St. Thomas.[1] A quarter S. Thomé was also issued by Garcia de Sa,[2] but the lower denominations were not called half, quarter, etc. The terms S. Thomé was used in a generic sense and its various denominations were reckoned in terms of their value in silver coins issued about this time and called the Xerafins. Thus we get S. Thomes of 12, 10, 8, 5 Xerafins.[3] No S. Thomé of 12 Xerafins was issued till 1762 and the value in Xerafins was not displayed on any S. Thomé's earlier than 1776.[4]

The minting of silver coins was also suspended in 1519 and after that silver coins were struck at the Goa mint in 1550 when the Viceroy Affonso de Noronha ordered the issue of silver pieces. The cross of Christ device, however, was not renewed. The new silver issue had the likeness of a saint stamped on one side and the coins of this series were known as silver S. Thomé's or Patacoes.[5] But whereas the gold coins displayed only the effigy of St. Thomas the figures on the silver pieces are those of St. Sebastian, St. Philip and St. John—

1 N. Circ. 1912, 13585; J. B. B. R. A. S. XIV, 412.
2 *Ibid., ibid.*
3 N. Circ. 1912, 13316.
4 N. Circ. 1912, 13591, Cf. M. G. M. 53 (No. 3).
5 J. B. B. R. A. S. XIV, 413.

the patron saints of the respective kings in whose reign the pieces were issued. In 1569 Government regulations were issued to strike a silver coin of 22 grammes or 338·8 grains with the effigy of St. Sebastian on one side and the arms of Portugal on the other. Half denominations were also to be issued. The coins were to be called Xerafim and half Xerafim. A smaller silver coin called Tanga weighing 4·4 grammes or 67·6 grains was also instituted.[1] The copper value of the Xerafim from first to last was always kept constant at 300 reio, but its weight varied greatly in the course of 300 years during which it was used. In 1569 when it was first minted it weighed 19 grammes or 292·6 grains, though according to regulations its weight was fixed at 22 grammes; from 1640 to 1650, 11 grammes (169·4 grains); from 1650 to 1726 about 10·4 grammes (160·16 grains) and from 1726 onwards only 5·8 grammes (89·32 grains.)[2] About 1594 the Goa authorities introduced a new silver coin in their currency. This was the Tanga. Originally the weight of this coin was about 72 grains, thus definitely linking it with the larin of Bijapur. But just as we find the weight of the Xerafim progressively reduced, similarly the weight of the Tanga also underwent change and we find that during the reign of Don Filippe (1621-1640) the Tanga issued from Goa weighed only about 40 grains. Along with the tanga was minted the half tanga which also suffered similar vicissitudes.[3] The word rupee did not appear on any Goa coins till 1775 when a coin weighing 165 grains was issued with the legend Rupia stamped on it.[4]

The Diu mint was opened in 1685. Till that date coins for circulation at this place, Xerafim, half Xerafim and Tangas were coined at Goa and are mentioned as having been specially issued for Diu.[5] The coins struck at Diu mint followed the Goa issues in weight standard, devices and legends.

1 N. Circ. 1912, 13866-13867.
2 N. Circ. 1912, 13867.
3 N. I. P. 54.
4 N. Circ. 1913, 38.
5 N. Circ. 1912, 13314.

Besides gold and silver coins the Portuguese also issued coins in tutenag and copper. Some coins of the latter metal have been already noted. The early copper coins of Goa were leals or bazrucoes. Later on was introduced another copper piece called the real, five of which were equal to four leals.[1] During the eighteenth century the copper coins consisted of the Atia equal to 15 reis, half Atia and quarter Atia. In tutenag we have five bazaruco pieces varying in weight between 130 and 146 grains. Both the varieties of coins have a crude and imperfect representation of the crowned arms of Portugal on the obverse and the cross of the order of Christ with the date on the reverse.[2]

Coinage of the East India Company :—In 1671 the Court of Directors, agreeing to Aungier's suggestion for a mint at Bombay, gave permission to establish one on the island. By the end of December of that year striking of coins had begun, but it was restricted to copper and tin only. Aungier was all ready to launch the project vigorously and had prepared specimen silver coins called Angelina. The gold coin according to him was to be named Carolina. The copper pieces were to be called Coperoons and the tin ones Tinnies.[3] The mint continued to coin the copper piece which passed current in the island of Bombay, in the adjoining Maratha kingdom and also in Portuguese territory. The minting of gold and silver remained in suspense.[4] Meanwhile the company pondered over the question and in 1676 the Bombay factory was permitted to coin money of gold, silver, copper, tin, lead or any metal compounded of these, and to be called rupees, pices and budgrooks or any other name not current in England.[5]

The weight of rupees minted in Bombay during the reign of Charles II varied between 167·8 grains to 198·2 grains. These coins represent two or three types of legends and devices. One type of rupee had on the obverse within

1 Whiteway, 68.
2 N. I. P. 55-56, 61-63 ; N. Circ. 1912, 13316.
3 E. F. I. 1670-1677, 52-53 ; N. C. 1906, 355.
4 E. F. I. 1670-1677, 108.
5 N. C. 1906, 357 ; Thurston, 16-17.

a beaded circle the words "Mon Bombay. Aglic Regims. A 7" and in the outer circular margin "A Deo Pax & Incre-mentum." The reverse had a shield of arms of the Company within a beaded circle and the words "Ind. ori. Hon. Soc. Aug." in the outer circular margin. Still another type had on the obverse the words "The rupee of Bombaim" in the centre with the words "By authority of Charles the Second 1677" around ; and on the reverse were the royal arms of England in a shield with a crown above the shiled and the words "King of Great Britain, France and Ireland" around. Still another type had on the obverse a shield of arms between two wreaths and on the reverse the words "Pax Deo" within a beaded circle and the words "Moneta Bombainsis" with or without date around.[1] With the second type mentioned above the regular issue of dated coins appears to have begun. The fanciful names of Aungier were now discontinued [2] and the silver coins of Bombay were known as rupees. Half rupees of the last type were also minted.[3] A silver rupee of James II struck in 1687 confirms to the last types of Charles II rupees mentioned above.[4] Copper pice with devices and legends similar to the first type of rupees already des-cribed were minted probably from the same die as the rupee.[5] Later copper coins were issued with company's bale-mark on the pice and half pice and the English crown on the double pice. The reverse legend on these pices was "Auspicis Regis et Sonatus."[6] The minting of this type started early in the eighteenth century and continued till the reform of East India Coinage in 1835.

The company soon discovered that they could not con-tinue coining rupees with the name of the English king, but had to confrom to the Mughal types. So that we find that the English gold and silver coins issued during the eighteenth century were exact copies of the Mughal coins under Shah Alam II.

1 Atkins, 137-138 ; I. A. 1882, 314-315 ; Thurston, 19.
2 N. C. 1906, 357.
3 Atkins, 137 ; J. A. S. B., 1921, 16-18.
4 Thurston, 21.
5 Atkins, 140, Thurston, 19.
6 Atkins, 140-143.

For the Madras Presidency the company first adopted the pagodas, fanams and copper coins known as cash. These were coined first about the year 1671 at Fort St. George ; and in 1686 a charter was given to the company to coin any money such as was usually coined by the South Indian rulers. With the establishment in the South a Muhammadan principality at Arcot we find the company adopting also muhars and rupees. The Arcot mint of the company was established in 1748 and after that we find the company issuing coins in accordance with both the monetary systems of India, striking muhars and pagodas in gold, rupees and half and quarter pagodas and fanams in silver and copper coins of various denominations with Tamil legends.[1]

The establishment of an independent coinage in Bengal was of a much later date. Until the year 1757 the only indulgence granted to the company was the privilege of having bullon converted into coin at the mints of the Nawab, which were at Dacca, Murshidabad, and Patna.[2] The company was permitted to have a mint at Calcutta in 1759 or 1760. "You shall coin gold and silver of equal value and fineness with the Ashrafees and rupees of Murshidabad in the name of Calcutta. In the suburbs of Bengal, Bihar and Orissa, they shall be current.[3]

The only gold coins the company issued in Bengal were the old and new standard muhars known as the "19 sun siccas" as all of them bear the 19th year of Shah Alam's accession on them. The old standard coins have oblique milled edges and weigh 190 grains, the new standard have upright milled edge and weigh 204 grains, but being of a lower degree of fineness were equal to the old in value.[4]

The first silver coinage issued from the Calcutta mint was known as "four sun siccas of Alinagar—Calcutta" called

1 Thurston, 29-38 ; Atkins, 133, 163; I. M. C. IV, 140-145.
2 Atkins, 132.
3 J. A. S. B. 1893, 53.
4 Atkins, 149.

by that name because they were coins minted or bearing the figure the fourth regnal year of Emperor Alamgir II. The obverse of these coins had the following legends : مبارک عالم گیر بادشاه غازی سکه and the reverse gave the mint name and regnal year کلکته سنه جلوس ۴ ضرب علی نگر There are many varieties of rupees. Besides Calcutta they were struck at Dacca, Murshidabad and Patna mints. The coins show part only of the legend and are difficult to distinguish from Mughal issues. An improvement was, however, effected in later years and one date only appears on all rupees struck after this. They bear the date 19th year of the reign of Shah Alam II. These new "19 sun siccas" were declared by the company to be the only one allowed to pass as authoritative coins.[1] In 1790 machinery was sent out to Calcutta from England and coins of modern type with milled edges were struck.[2]

Indo-French[3]—The pagodas issued by the French East India Company bore on the obverse the figure of Vishnu and on the reverse on a granulated surface (an essentially Mahomedan device in deference to the wishes of the Mahomedan states of that period). This coin was of the same value as that of the star pagoda of the English Company, the Dutch pagoda bearing the legend Tagnapatam and the Danish pagoda of Christian VII. This crescent pagoda ceased however to be minted long before the revolution, the Pondicherry mint having issued thereafter only three Swami Pagodas for the use of the settlement of Yanaon, similar to Madras pagodas, with the figures of Vishnu and his consorts, on the obverse and the crescent on the reverse.

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1 Atkins, 149.

2 J. A. S. B. 1930, N. 15.

3 The following sources have been used for this section :—(1) Zay, E. History Monetaire des Colonies Françaises, 269-334, (2) Desikachari, T. : Indo-French Coins, (3) Symonds, T. J., : On Some Indo-French Coins (J. Anthrop S. B. II, 102-108), (4) I. M. C. IV, 130-145.

Coming to the silver money, Fanams began to be issued in the year 1700 and twenty-six of these went to a gold pagoda. These fanams were originally made as nearly as possible of the standard then prevalent in the country. But the value of the currency having increased they were soon taken out of the country as there was profit in exporting them. The Company thereupon devised a system whereby fanams of less weight, but still twenty-six to the pagoda were issued, though really thirty-two of these were equivalent to the pagoda. This had the effect of keeping the fanams within Pondicherry and its territory. The designs on these coins however continued unaltered till the beginning of the 19th century except for the only change introduced by the substitution of the arms of the new company for those of the old company.

Three denominations of fanams were issued, "the fanon," "the double fanon," and "the half fanon". The earliest single fanam bore on the obverse, within a circle the legend "Pondicherry 1700"; in the centre a fleur de lys and the reverse within a dotted rim four double lines forming a cross and joined by a circle with a fleur de lys in the centre. The double fanam had on the obverse a dotted rim within a dotted circle, a fleur de lys beneath a crown ornamented with fleur de lys. The reverse followed the fanam. These types are essentially French, for there appears to have been no restriction imposed on the types of the silver and copper coinage of the country. The two types of fanams above referred to were evidently issued by the first company. The coins by the second company bear no distinctive marks to indicate the year in which they were issued. They comprise single and double fanams bearing on the obverse a small crown ornamented by a floral design and on the reverse five fleur de lys. These are ordinarily met along with the Puducheri or "Koli kas" in the bazaars of almost all the Southern Districts. The archives of the Pondicherry mint having been destroyed and the dies having disappeared, it is impossible to assign these fanams to any particular period. The type of fanams of the third period is that bearing on the obverse the Gallic cock with the right claw on a globe, and date ; and on the reverse a crown ornamented as in the last of coins.

The copper coins of the company which were of subordinate importance of three types ; the commonest are: (1) those with the legend of Puducheri in Tamil on the reverse and a large fleur de lys on the obverse, (2) the Gallic cock on the obverse and a reverse which is the same as that of the first type.

The French rupee, which in course of time was greatly in request as of the finest silver obtainable in India during those times, was after the model of the Arcot rupee. But it was issued neither in the name of the company nor of the French Government, but in the name of successive Mughal Emperors as was done by the English Company.

The settlement of Yanoan, Masulipatam, Mahe, Chandranagore and Surat had each their distinctive coinage. The Yanoan Pagoda had on its obverse, three figures, standing Venkateswara and his two consorts, and on the reverse, on a granulated surface, the crescent as on the Pondicherry pagoda. The coin was minted at Pondicherry for the use of the settlement of Yanoan. Silver rupees and copper dubs were coined for the settlement of Masulipatam, 46 to 48 dubs having exchanged for a rupee. The rupees were much like those of Pondicherry and their distinctive mark was a trident.

The copper dubs bore on the obverse the name of the Delhi Emperor and gave the year of his reign and on the reverse the legend "Matchipathan" and the regnal year. Rupees and fanams intended to meet the exigencies of the local currency of Mahe were struck at Pondicherry. Though of the same fineness and weight, these coins were slightly broader than those intended for use in Pondicherry and were not received as legal tender in that settlement. Five of these fanams went to the rupee and fifteen biches (*paisas*) in copper formed the value of each fanam. Half and quarter rupee as in Pondicherry were also struck for Mahe. The Mahe fanam had on its obverse a Persian legend in two "Fanam Companie" and on the reverse in two lines "Bhutcheri" P and the year of the Christian Era. The Biches bore on the obverse five fleur de lys and on the reverse the year of issue in the Christian era.

The privilege of coining money in Bengal was obtained in 1739 by M. Dupliex and a thousand piastres were sent to Murshidabad for being converted into rupees for the use of the settlement of Chandranagore. The rupees so struck were in the name of the reigning Emperor of Delhi giving his regnal year as in the Pondicherry rupees, but bore the distinguishing mark of a Jassamine flower. The denomination ranged from $\frac{1}{2}$ to 1/64 of a rupee.

In 1740 the privilege of coining rupees for the use of the factory of Surat was obtained from the Mughal Governor of that place ; these bore the words ضرب سورت and gave the name of the reigning Emperor of Delhi with his regnal year and the Hijri date.

Indo-Dutch and Indo-Danish Coinage.—The coinage of the Danish and Dutch East India Companies followed closely that of the English and French companies. The Dutch coined gold pagodas at Pulicat and the Danes at Tranqebar[1] in imitation of the Hindu coins as the other two European companies had done.

A Dutch mint was established at Pulicat in the Golconda kingdom in 1646 and gold and copper coins were issued from here in the name of Abdullah Qutb Shah. The gold coin was the Pulicat pagoda[2] whereas in copper they issued 1, 2, 3, 4, 5, and 8 cash coins.[3] These copper pieces had on the obverse the bale-mark of the company with a P above and on the reverse a corruption of the word "Palleaatta" and in the field a G. Perhaps the initial letter of Geldria the name which the Dutch gave to their fort at Pulicat.[4]

In 1690 Negapatam became the head office of the Dutch Company on the Coromandal Coast. It is likely that the coinage of the Pulicat pagoda ceased shortly after this date. The

1 Relations 92.

2 See Pages 52-52 ante.

3 N. Circ. 1936, 123 .

4 N. Circ. 1936, 125 .

Pulicat gold and silver coins mentioned after this date were perhaps the coins known under this name but struck at Negapatam.[1] The copper coins of Negapatam have on the obverse an N standing for Negapatam and the letter V O C, initials of the Dutch East India Company's name, Verinigte Ostindishe Compagnie. The reverse of these coins gives the mint name in Tamil. Some of the coins have a P on the obverse for Pulicat and the letter V O C and a representation of the sun and the moon on the reverse with the mint name in Persian as ضرب پلیکت.[2]

On the Malabar Coast at Cochin the Dutch issued silver fanams and tin and copper coins. At Madura and Tuticorin they issued pagoda and at the latter place they struck rupees in 1788 and 1789, but these have not yet come to light.[3]

The Danes came to India in 1618 and obtained a foothold at Tranqebar and later at Porto Novo and Calcutta. They issued silver, lead and copper coins,[4] Gold pagodas of the reign of Christian VII (1766-1808) are known.[5] The Danish silver coins, like other European issues in the South, were called fanaos. The first silver coin under Christian V (1670-1679) was called a Piaster, but the name was soon changed to the one current in the country. One fanao, 2 fanao and 5 fanao pieces are known. The name continued till 1746. After that date the coin was called Royaliner which soon changed into Royalin. The Royalin.[6] was in reality a half rupee piece.

Danish copper coins were the standard South Indian Cash pieces, the cash coin varying in weight between 12 to 15 grains. One, two and four cash pieces of Danish mintage are common. Lead 4 cash pieces were also issued.[7] All the Danish coins exhibit on the obverse the initials of name

1 N. Circ. 1936, 123-124.
2 B. N. J. 1908, 343-344.
3 N. Circ. 1936, 164-165.
4 B. N. J. 1912, 390-393.
5 B. N. J. 1912, 393 ; J. A. S. B. 1934, N80.
6 B. N. J. 1912, 390-393 ; J. A. S. B. 1934, N80.
7 B. N. J. loc. cit.

of the reigning Danish king and on the reverse Danish heraldic devices in some cases in initials D O C (Dansk Ostindisk Compagni) in a monogram and the name of the coin or its denomination in others. In some cases the reverse shows only the initials T. B. which stand for Tranqebar.

From the point of execution and workmanship the Indo-European coinage fell far short of the high standard obtained in Mughal issues. Speaking of the Indo-European coins in general Captain Tufnell observes: "When one looks at these rude caricatures of coins, and then compares them with the clear-cut issues of the Mughals and Pathans struck centuries before, fine in designs and exquisite in workmanship, with every letter well defined and clear, one can hardly believe that we were posing among them as a civilised power."[1]

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1 Hints for Coin Collectors, 41.
2 The British Numismatic Journal.
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